

Van Gogh's "Le Pont de Trinquetaille", which will be auctioned in London by Christie's today, is expected to fetch more than \$12m.

**UK TREASURY** yesterday gave the first public warning to cabinet ministers drawing up spending plans that it was determined to maintain restraint. Page 7

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## OVERSEAS NEWS

## Fresh row hits talks on US bases in Greece

BY ANDRIANA IERODIACONOU IN ATHENS

THE START of negotiations on the future of the four US military bases in Greece has received another setback with the eruption of a diplomatic row between Athens and Washington over American allegations of Greek Government bargaining with terrorist groups.

According to the Greek Government, Mr Robert Keeley, US Ambassador to Athens, "raised issues relating to supposed contacts with terrorist groups, with the purpose of avoiding bomb attacks on Greek soil" during a meeting last Thursday with Mr Karolos Papoulias, the Greek Foreign Minister.

Athens demanded on Saturday that the allegations be

withdrawn and warned that talks on the bases issue could not start unless the issue were cleared up.

A Government spokesman described the allegation as "ridiculous, unfounded, slanderous and suspicious."

Terrorism has constituted a particularly raw nerve for the Greeks since 1985 when the US imposed a brief but highly-damaging travel advisory notice against Athens airport following the hijacking of a TWA jet by Arab gunmen.

Preliminary talks on the bases to decide further negotiating procedure were expected to start last spring. They were put on ice by Athens, however, following the March crisis with

Turkey over oil exploration rights in the Aegean Sea.

Greece blamed Washington for having allegedly given Ankara the "green light" to despatch an oil exploration vessel into Aegean international waters.

The base for the talks appeared to be put back on track in a meeting in Reykjavik earlier this month between the Greek Foreign Minister and Mr George Shultz, US Secretary of State, and were generally expected to start last week. It is now unclear when they will begin.

The present agreement on the bases operation was signed in 1983 and expired in December 1988. The Greek

Socialist Government which came to power in 1981 pledging to close the bases, has said it will seek a referendum before finalising a new agreement extending the bases tenure. The bases support the US Sixth Fleet and monitor Soviet activity in the Eastern Mediterranean.

David White adds from Madrid: US and Spanish negotiators were believed to have made little progress in two days of high-level talks in Madrid on the future of Spain's four US military base facilities.

It was the sixth such round since last July, in the wake of the referendum held by Spain's Socialist Government for re-

maining in Nato on condition that the US military presence was reduced.

Spanish Foreign Ministry officials said, however, that they still hoped for a preliminary accord by November, enabling the two countries to renew the bilateral defence agreement which expires in May 1988.

Spain's demands centre on the removal of a tactical air wing comprising 72 F-16 fighters, stationed at Torrejon outside Madrid. It has made clear these would have to be moved out of Spain and not simply transferred to the standby US air base at Moron in the south. A further session of talks has been set for September.

## Brazil acts on Sarney attackers

By Ivo Dawnya in Rio de Janeiro

THE BRAZILIAN Government has reactivated long-dormant police powers to track down those responsible for a violent stone-throwing attack on President Jose Sarney.

The incident, which alarmed senior military ministers for its viciousness, unprecedented in recent Brazilian history, occurred in Rio de Janeiro during a presidential visit. A small but highly vociferous crowd demanding economic reforms and direct presidential elections began hurling rocks at short range at a coach carrying the President, smashing the window where he sat and injuring at least one person.

Brazil's lack of experience of political violence after 21 years of military dictatorship has provoked a tough response from the authorities, who have now warned that suspects may be held for five days incommunicado and could be tried by a military court.

Officials have indicated their suspicion that activists of CUT, the left-wing trade union confederation, and supporters of Mr Lionel Brizola, the former Rio governor, were behind the attack.

## Volcker challenges Reagan's policy on budget deficit

BY STEWART FLEMING, US EDITOR, IN WASHINGTON

MR PAUL VOLCKER, Federal Reserve Board chairman, has directly challenged President Ronald Reagan's policy for tackling the huge US federal budget deficit and strongly endorsed the tax increase proposed in the Democratic Party's plan for deficit reduction.

Questioned in Colorado about the tax increase of about \$19bn (£11.5bn) contained in the 1988 fiscal year Congressional budget resolution, Mr Volcker said: "I think it will have a wholly constructive influence in terms of the security of the (financial) outlook (and) trade picture."

Mr Volcker, who retires as Fed chairman in August, when he will be replaced by Mr Alan Greenspan, a New York economist, said that addressing the budget deficit problem should be "front and centre" on Congress's agenda this summer.

"The problem, I suppose, in a democracy all the time is whether you can wait enough of the time in the absence of a crisis. I do not think we can afford to generate a crisis to spur Congressional action, but sometimes you almost wish that was the case."

President Reagan has been campaigning strongly against the tax increase in the Congress.



Paul Volcker... outspoken critic

sional budget resolution. His position is seen in part as a reflection of his own deep political convictions about taxes and government spending.

But it is also part of Republican Party strategy to try to paint the Democratic Party as the party of higher taxes and an attempt to bolster Mr Reagan's own fading political prestige.

Over the next few weeks, fiscal policy is expected to become a central issue on Capitol Hill, because Congress must pass a new law to increase the current limit on the federal debt.

## Danes seek EC aid in meat row

BY HILARY BARNES IN COPENHAGEN

Denmark has appealed to the EC Commission to support its protests against a ban by Canada on its meat exports.

The Canadian step follows a veterinary inspection of all 34 Danish slaughterhouses. Only two were approved by the Canadians. The rest were said to fall hygiene requirements.

The Danish meat exporters regard the Canadian action as an example of the use of veterinary regulations for trade policy purposes. "There is no question of a health hazard,"

Mr A Toft Fensvig, managing director of the Danish Slaughterhouses Association, said.

Danish meat exporters believe the Canadian action is in retaliation against the EC, whose veterinary inspectors have only approved exports to Europe from a handful of Canadian meat processing companies.

Mr Uffe Ellemann-Ensen, Denmark's Foreign Minister, said the Canadian action was unacceptable. "I am sure we

can obtain an understanding with Canada with the assistance of the EC, as Canada also exports to Europe. It is therefore in the interests of both parties to treat each other correctly."

Mrs Britta Schall Holberg, Denmark's Agriculture Minister, has pointed out that the EC gives slaughterhouses abroad seven months to iron out any such problems.

She said Canada should give the same licence to the Danish slaughterhouses.

## Sweden drops insider probe

BY KEVIN DONE IN STOCKHOLM

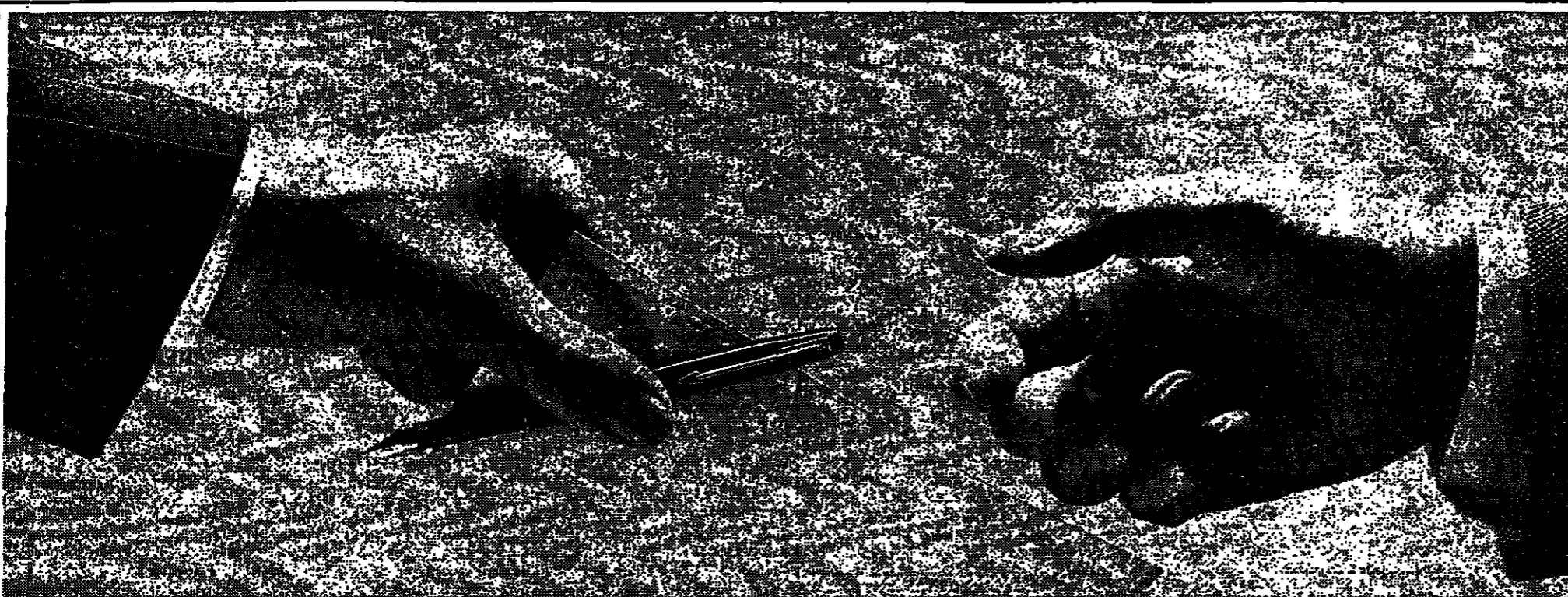
THE PUBLIC Prosecutor's Office in Stockholm has dropped its investigation of Mr Refaat el-Sayed, the discredited former majority shareholder and chief executive of Fermenta, for alleged insider trading at the beginning of 1986.

The move by the prosecutor to drop the case is the first positive development for Mr el-Sayed since he was ousted from control of Fermenta, the scandal-beset antibiotics and

chemicals group, at the end of last year.

Mr el-Sayed is still under investigation on several more serious counts, however, including fraud, book keeping crimes and breaches of Sweden's Companies Act.

The Swedish banking inspectorate is also still conducting a much more far-reaching insider trading probe into transactions made by a number of Fermenta employees and board members.



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## Hungarians face last days of good life as reform debate rages

BY LESLIE COLTIN IN BUDAPEST

HUNGARIANS are enjoying what remains of the good life in spite of the continued slide of the economy and the reshuffling of the leadership under Mr Janos Kadar on Thursday.

But chic fashion boutiques and tables groaning with the choicest of food in Eastern Europe cannot conceal the economic malaise.

Hungary's \$650m balance of payments deficit in the first five months showed no improvement over the same period last year. Net foreign debt is expected to rise to \$3.5bn at the end of this year with debt servicing of nearly \$1bn devouring hard currency export earnings.

While western banks and the IMF continue to express confidence in Kadar, the leadership is being urged by its economic advisors to adopt wide-ranging reform measures.

They would bite deep into the much acclaimed Hungarian standard of living. Thus a debate in the party's upper echelons rages on how much belt tightening Hungarians will take without a political backlash.

Already, they have suffered a decline in real incomes since 1979 which, however, has been masked by income from the additional jobs Hungarians hold. If all goes well and the advocates of decisive reforms their way, the Hungarian Communist Party next month will present the national with a two-phase reform package. Details of the long-delayed economic programme are still being thrashed out in the ruling Political Committee.

As outlined by senior party officials and the Government's economic advisors, it would consist of a three-year stabilisation programme, designed to deal with the causes of the economic reversal.

At the root of the current economic problem is the inability of Hungarian industry to compete internationally. In part, this is the result of subsidising inefficient companies with the tax revenues from profitable firms.

Under the short-term programme, it is envisaged that subsidies would be reduced by 25 per cent annually, and would cease to exist by 1991 except for essential services and the defence sector.

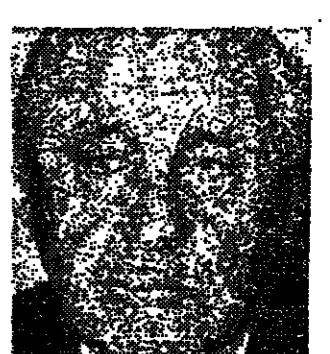
Mr Ivan T. Berend, president of the Hungarian Academy of Sciences and an influential Government economic advisor, said the authorities were now coming to realise that meaningful reforms meant that structural unemployment was unavoidable although everything would be done to limit it.

The second and no less hotly debated part of the reform package would consist of major price and wage reforms to be implemented in stages by the early 1990s.

The wage reform based on wider income differentiation—to each according to his output—has long been advocated in theory by the party but never set down as a concrete goal.

The price reform would aim to achieve more realistic world market prices, especially for Hungarian producers to force them to compete internationally.

The party leadership has resisted proposals by economists to slash subsidies more quickly and accept a larger amount of initial unemployment. Hungary's planning chief, Mr László Maróthy, a member of the Political Committee under Mr Kadar said in an interview last week that the leadership could not tolerate an avalanche of joblessness. But it realised that



Janos Kadar—wrestling with economic reform

Industrial restructuring would lead to employment "problems" in certain areas.

"With the money saved from subsidies," he suggested, "we can create new jobs."

But the backers of decisive reforms argue that Kadar-planned Hungarians have grown hostile towards the economic reforms and can only be rallied behind a new reform programme by measures to democratise Hungary's political institutions.

These would include a new personnel policy, Mr Berend noted, to assure that responsible political and economic positions are filled on the basis of merit and not wire-pulling. He and other reformers urge a stronger control over the Government's (and party's) activities by other institutions such as Parliament and the People's Front. They also argue for a greater emphasis on human rights.

Mr Berend noted that Gorbachevian reforms in the Soviet Union have paved the way for more radical reforms in Hungary. But in addition, to the innate caution of the leadership, which wants political stability above all, the poor state of the economy is a powerful barrier to meaningful reforms. At present he said the deteriorating economy meant that state intervention—"which always runs counter to reform"—is a necessary evil.

The fate of Hungary's economic reforms, Mr Reszner Nyers, noted the Hungarian leadership was now paying dearly for its past delays in pursuing them.

Despite nearly 20 years of economic reforms which Mr Nyers initiated, Hungary, he said, was still left with a "pseudo-market economy" in which the Government regulated almost everything.

Hungarians, he remarked in an interview, had grown sceptical about their leaders and the closed manner in which decisions were taken. He wondered aloud whether the party had the courage to explain to the population why sacrifices were needed.

## FINANCIAL TIMES

Published by The Financial Times (Europe) Ltd., Frankfurt Branch, incorporated by E. Zapp, Frankfurt/Main, and as members of the Board of Directors, F. Beckner, R. A. F. McCann, G. T. S. Damer, M. C. Gorman, D. E. P. Palmer, London, Printer: Frankfurt-Societäts-Druckerei-GmbH, Frankfurt/Main. Responsible editor: D. Albion, Frankfurt/Main. Gohlstrasse 54, 6000 Frankfurt am Main 1, © The Financial Times Ltd, 1987.

FINANCIAL TIMES, USPS No. 190649, published daily except Sundays and holidays. US subscription rates \$365.00 per annum. Second class postage paid at New York, N.Y., and at additional mailing offices. POSTMASTER: send address changes to FINANCIAL TIMES, 14 East 57th Street, New York, N.Y. 10022.

## OVERSEAS NEWS

## Italy takes step to end exchange controls

BY JOHN WYLES IN ROME

ITALY'S CARETAKER Government has taken another step in the country's slow march towards abandoning all exchange controls with draft decrees which would limit the authorities' powers to slap on new controls during a currency crisis.

Despite some controversy as to whether a caretaker government had the authority, Mr Mario Sarcinelli, the Foreign Trade Minister, has secured adoption of the decrees by his colleagues on the grounds that

any further delay would breach the timetable laid down by a framework law passed by Parliament last autumn.

Although there is a solid intellectual consensus in Italy now that exchange controls must become a thing of the past, the move towards liberalisation is taking place against the background of deteriorating trade and current account balances which could put the lira under pressure and complicate the entire process.

According to figures released

at the weekend, Italy's trade balance showed a deficit of L1,411bn (£666m) in May with a 2.5 per cent rise in value of imports and a 0.3 per cent fall in the value of exports. The country's trade surplus on non-oil goods has fallen to L58bn from L466bn in the same month last year.

Although the Government relaxed a number of important exchange controls in May, the new decrees make it clear that a fully liberalised system will only appear with the comple-

tion of the European Community's internal market—set for 1992.

Until then, private citizens and companies will have to channel their foreign exchange transactions through the authorised banking system and their freedom to hold foreign exchange will remain limited to a fixed period.

If a government is faced with the need to bring in temporary restrictions "because of the lira's difficulties on foreign exchange markets or because of

disequilibrium in the balance of payments," the new decrees envisage a variety of emergency measures ranging from restrictions on the banking system to curbs on investment abroad.

However, the decrees specifically rule out a recourse to the recently abandoned non-interest bearing deposit on Italians' purchases of foreign securities and to a two-tier currency market involving "financial" "commercial" liras operating at different exchange rates.

## Resign call deals blow to Waldheim

AUSTRIAN President Kurt Waldheim received an unprecedented political blow when the powerful Vienna section of the dominant Socialist Party called for his resignation over the weekend, Reuter reports from Vienna.

Mr Waldheim, 68, has been accused by critics of covering up his role with the German Army in the Second World War and the Vienna regional congress of the SPÖ voted to demand his resignation from the office to which he was elected a year ago.

Delegates approved the resolution over objections from the leadership of the SPÖ, which rules in coalition with the conservative People's Party (ÖVP).

A day earlier Mr Waldheim returned from an audience with the Pope in the Vatican, which his supporters hoped would end his international isolation since he became head of state.

Mr Waldheim, the former UN Secretary-General, has been under fire from the United States and other Western countries and Jewish organisations over allegations, which he denies, that he concealed his role with the German Army during his Balkans campaign in the Second World War.

## Financial aid to Third World falls sharply

BY GEORGE GRAHAM IN PARIS

FINANCIAL resources provided to the developing world fell sharply last year, as higher official aid failed to balance the continued net decline in export credits and bank lending.

Official aid from the Western industrialised nations rose to \$37bn (£23bn) compared with \$29.4bn in 1985, according to figures published today by the Paris-based Organisation for Economic Co-operation and Development.

Most of the increase is due to the depreciation of the dollar, the OECD notes, and after adjusting for exchange rate changes and for inflation the total volume of aid is estimated to have risen by 2.5 per cent.

Export credits are no longer a significant net source of development finance, the OECD said, while bank lending to the developing countries more than halved last year and bond finance stagnated.

Members of the Development Assistance Committee (DAC), which includes 18 OECD member countries as well as the European Community, devoted a combined 0.36 per cent of their gross national product to aid, Mr Joseph Wheeler, DAC chairman, said, the committee was pleased that private charitable aid had remained at around \$3bn, and that aid from oil-producing nations, especially Saudi Arabia, had started to pick up again.

up from 0.35 per cent in 1985 but still barely half the 0.7 per cent target set by the UN.

Only four countries have exceeded the target of applying 0.7 per cent to aid: Norway (1.3 per cent), the Netherlands (1.0 per cent), Denmark (0.89 per cent) and Sweden (0.85). France has reached the target if aid to its overseas departments is included.

Mr Joseph Wheeler, DAC chairman, said the committee was pleased that private charitable aid had remained at around \$3bn, and that aid from oil-producing nations, especially Saudi Arabia, had started to pick up again.

Aid from members of the Council for Mutual Economic Assistance had risen by an estimated 20 per cent in current dollars to \$4.2bn, he said.

Mr Wheeler said the committee had been startled by the sure in aid from Italy last year. Official Italian aid more than doubled in dollar terms to \$2.42bn, an increase of 58 per cent even after allowing for inflation and for the depreciation of the dollar against the lira.

## Communists choose Occhetto as deputy leader

BY OUR ROME CORRESPONDENT

THE Italian Communist Party (PCI) confirmed Mr Achille Occhetto, 51, as its "leader in waiting" at the weekend after one of the most dramatic public squabbles in its history.

Although much more indulgent than it once was about publicising its internal divisions, the party has not before had such a grandstand row under the public gaze. It was unexpectedly sparked on Thursday by Mr Alessandro Natta, the party leader, who announced that he would be nominating Mr Occhetto as vice-secretary— which pits him first in line to take over the leadership whenever Mr Natta, 68, decides to stand down.

After publicising their highly

critical speeches, the PCI's right wing maintained their opposition to Mr Occhetto, but their 41 votes on the party's central committee were swamped by the 194 in support of Mr Natta's choice. It remains to be seen whether the party's tradition of nipping behind a decision once taken, holds in the case of Mr Occhetto.

The right wing have been badly out-maneuvred by Mr Natta who forced a leadership decision on the party which many thought would arrive only after weeks of inquest into the PCI's defeat in the recent general elections.

The conclusions drawn are vital for the PCI's future role. Mr Occhetto's election as

deputy leader makes it more likely that the party will sharpen its role as a vehicle for political and industrial protest and in opposition to the government of the day. An opening towards the Socialist Party, desired by the PCI right-wing, would then be much less likely.

Long a favourite to succeed Mr Natta, Mr Occhetto is the product of a generation whose careers were moulded by Mr Enrico Berlinguer, the dynamic PCI leader who died in 1984. A short stock man with a mane of brown hair and a greying moustache, Mr Occhetto has long been on the left of the PCI, although he may move towards the centre, as did Mr

Berlinguer, once he becomes leader.

Born in Turin of a middle-class background, the PCI vice-secretary has spent his entire life as a party official, having run the PCI's youth movement in the 1960s, been secretary of its Palermo section in the 1970s and, more recently, been co-ordinator of the secretariat.

Since he is very much the candidate favoured by the party machine, there are real doubts as to whether Mr Occhetto will be able to make the changes in the party's organisation and strategy which might help arrest the decline which has set in since it won a peak 34.4 per cent of the vote in 1976. Its share in this month's election was only 26.8 per cent.



Alessandro Natta... wins the day on new appointment

## Scandinavian group signs protocol with Soviet central bank

BY KAREN FOSSI IN OSLO

BERGEN Bank, Norway's third largest bank, together with its Scandinavian bank partners consortium of two-and-a-half years—Privatbanken, SE Bank, and United Bank of Finland have signed a "protocol" agreement with the Soviet Union's central bank, Gosbank, and the Russian foreign trade bank.

According to Mr Oddvar Sten Ronsen, representing Bergen Bank's participation in the agreement, "the idea of the protocol is to establish a platform for financial advice to Nordic companies seeking joint ventures with Soviet organisations."

Mr Ronsen said that the Soviets have already signed 10 similar agreements with other European banks recently.

Of its Nordic banking partners, Bergen Bank is fully accredited for operations in Russia. Mr Ronsen believes that it is against this background that Bergen Bank was invited by the Soviets to participate in the protocol agreement.

Mr Ronsen says that he does not foresee expansion beyond the infrastructure which Bergen Bank has already established in the Soviet Union. In Sweden and in Finland two joint venture agreements have already been signed although representatives from these countries were not available for comment yesterday.

"We expect Norwegian companies to come forward to show interest in establishing joint ventures with the Soviets—but it will take some time because the conditions upon which such joint ventures can be established are not yet documented."

Mr Ronsen also pointed to the oil industry in which the development of offshore oil and gas fields, especially in the Barents Sea where both the Norwegians and the Russians have just begun to explore, and the development of the Kola peninsula, through joint ventures could be another way of co-operating with the Soviets.

"Previously, co-operation was based on exports but it might be that joint ventures could be the new way of co-operation," he suggested.

In this sense, Mr Ronsen said, the Bergen Bank agreement with the Soviets is of particular interest because "we are ready to go into the financial aspects, which is crucial to joint ventures because key questions surrounding investment will be critical to major decisions."

Organisation of the new co-operation will comprise a joint venture working party on finance where members of the Soviet banks and the four Nordic banks will prepare financial instruments, and analytical tools to underpin these. Meetings are formally scheduled for at least once a year although other ad hoc meetings can be expected. For example, Bergen Bank might have direct bilateral contact with the Soviet banks and the same would go for the other banks in the other countries.

"I think this development is startling because they (the Soviets) really mean business... it is monumental in historical terms," said Mr Ronsen.

## Daimler-Benz finds a new Japan niche

BY KENNETH GOODING, MOTOR INDUSTRY CORRESPONDENT

DAIMLER-BENZ of West Germany will launch its commercial vehicles in Japan for the first time at the Tokyo Motor Show in October.

The group is the world's largest producer of heavy vehicles (over 6 tonnes gross weight) and the Japanese venture is in line with its philosophy of being present in all parts of the world—however difficult individual market conditions might be.

For example, Daimler-Benz is the only European company still selling commercial vehicles in the Far East, an area dominated by the Japanese producers.

For some time, the company has been among the leading car importers in Japan, and 18 months ago set up its own commercial vehicle import company there to look for market niches where it could sell profitably in spite of being on the Japanese manufacturers' home ground.

The first vehicles to be launched by Daimler-Benz in Japan will be medium vans fitted out as luxury air-condi-

tioned minibuses. Daimler-Benz believes it can sell about 200 of the buses a year.

In Europe, Daimler-Benz will launch medium vans from its joint venture with Mitsubishi of Japan at the end of next year. Versions of the new Mitsubishi one-tonne vans, incorporating the West German group's engines, will be produced by Daimler-Benz's Spanish subsidiary.

Mr Gerhard Liener, manager and board member responsible for the commercial vehicle division, said the vans will be exported from Spain to most European markets but not the UK, because there were no plans for right-hand-drive versions.

Discussing the deal signed earlier this week by Volkswagen to produce Toyota pickups in West Germany, Mr Liener said he doubted if European tastes would change enough for Europe to absorb the planned 10,000 output.

Daimler-Benz therefore had no plans to add a Mitsubishi pickup to its range produced in Spain.

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## UK NEWS

David Churchill examines a fierce price war among leading tour operators

## Cheap holidays tempt winter sun seekers

TOUR OPERATORS, who still have 2m overseas holidays to sell this summer, have embarked on a fierce price war to sell holidays in the sun next winter.

Thomson Holidays, the market leader, has already been forced to undercut the prices in its winter brochures because of cheaper prices being offered by other operators, especially Horizon Holidays.

Thomson cut an average of £10 off the prices of 100,000 of its holidays when it found that prices for the same hotels were

**Next winter could provide the biggest growth the market has ever seen**

cheaper in the Horizon brochure.

Other tour operators are keeping up the pressure on prices. Cosmos last week gave a guarantee of refunding the difference in cost between its winter holidays and those offered by other operators.

Cosmos says that many of its winter holidays are a fifth cheaper than last year and it is also offering other benefits, such as free car parking at regional airports.

Tour operators believe that this price competition will lead to a rush to the sun next winter.

Mr Paul Brett, managing director of Thomson Holidays, says: "Over 2m people now take a winter holiday abroad and with prices so low we predict that next winter there will be the biggest growth this market has ever seen."

His view is backed up by



The Caribbean is increasingly popular

holidays have already had at least one other holiday. They are those customers who not only have steadily rising disposable income but also increased leisure time in which to take holidays.

The over-55s, in particular, are an important growth sector of the winter holiday market. "Our Young at Heart holidays, aimed at the over 55s, grew by more than 100 per cent last year," says Mr Nick Roberts, product manager at Thomson Holidays responsible for this sector. Thomson, for example, is also offering long-stay Mediterranean holidays for about £2 a day this winter.

Skiing is another winter holiday sector showing rapid growth. Always a traditional winter pastime for a minority of Britons, it is increasingly seen as an activity holiday appealing to many who had previously considered it as having a too up-market appeal.

British Airways' Enterprise holiday subsidiary, for example, said yesterday that so keen are some skiers becoming that it has been taking bookings for next winter's skiing holidays since last autumn.

Mr Nick Wood, senior manager with Enterprise Holidays, says: "We have been quite taken back by the level of demand."

Overseas winter package holidays really started to take off after a change in 1972 in the regulations governing the price and shape of holiday packages. As with the summer package holiday market, the winter market is dominated by Thomson, Intasun, and Horizon.

One factor that may boost the winter holidays has been the policy this summer by these

tour operators to offer lower-grade hotels or self-catering in order to keep down prices.

Mr Peter Robbins, managing director of the up-market La Manga Club travel operation, believes that "so many people will be disappointed by their summer holiday this year, because the operators have cut standards, that they will take a second holiday to compensate for this."

The key attraction for winter holidays, not surprisingly, is sunshine. Most holidaymakers go to the Mediterranean.

**Demand is growing for more exotic and distant holiday locations**

Increasingly, however, there is a growing demand for more exotic destinations, especially the Caribbean and Australasia. A popular destination with British holidaymakers to the Caribbean is the Heywoods Hotel complex on Barbados, which is owned by Copthorne Hotels, part of the British Caledonia group.

Caribbean cruising is also growing in popularity. The Royal Caribbean cruise line, for example, is launching its Sovereign of the Seas liner this winter.

"We have timed this to take advantage of the growing trend for people to take more holidays, further from home, at summer months," says Mr Jennifer Brown, Royal Caribbean's director of sales and marketing in Europe.

"We certainly expect that ship to be sold out," she adds.

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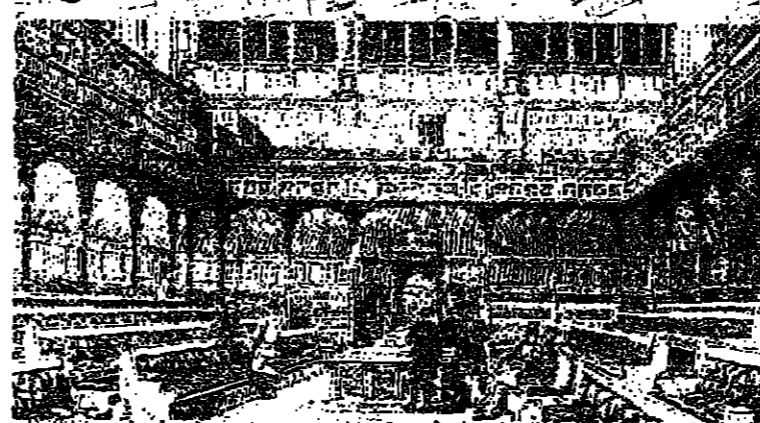
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COSTAIN

## UK NEWS

## Treasury maintains need for spending restraint

BY PETER RIDDELL, POLITICAL EDITOR

THE TREASURY yesterday gave the first public warning to Cabinet ministers, currently drawing up spending plans, that it was determined to maintain restraint, even on priority programmes such as housing, education and inner cities.

Mr John Major gave this warning in his first keynote speech as Chief Secretary to the Treasury, when he reiterated the Government's objective of reducing public expenditure as a share of national income.

"We shall not allow ourselves to be deflected by any post-election euphoria from this task," he said.

His speech, in his Huntingdon constituency, was intended as a warning shot across the bows of spending ministers as they finalise their bids this week for additional money for next year and later.

There is a desire in the Treasury to damp down any feeling of relaxation in Whitehall over spending targets in the light of the large increase in the medium-term totals announced last autumn and the recent talk by ministers about giving a greater priority to the inner cities and other social policy areas.

Mr Major noted that the Conservative manifesto contained radical proposals on education, housing and the regeneration of inner cities, but added it was clear from the Queen's speech that "there can be no blank cheques. It has never solved problems in the past. It will not in the future."

Mr Major stressed that detailed plans in these areas would be subject to the same searching examination as other programmes. He referred to performance targets, value for money, greater encouragement of choice and whether an activity needed to be conducted in the public sector at all.

"We must not let the growing strength of the economy delude us into thinking that restraint of public expenditure is unnecessary, for it was that restraint that produced

the strength of the economy," he said.

His objectives as Chief Secretary would remain reducing taxation and holding down public sector borrowing.

Treasury ministers have been careful to qualify the election promise of cutting the basic rate of income tax from 27p to 25p in the pound by saying it would happen "when prudent."

The main departmental spending bids will be submitted over the next few days. In spite of the disruption caused by the election, the usual timetable will apply with the full Cabinet discussing the economic and public spending outlook in the second half of next month.

This meeting is likely to reaffirm existing spending totals as the goals to work towards. Then there will be bilateral discussions between Mr Major and spending ministers getting under way in earnest in September.

## Caradon new issue attracts £1.36bn

By Steven Butler

THE POPULARITY of new issues was demonstrated once again at the weekend, with the announcement of a massive oversubscription of Caradon, the building products company that manufactures Twyford sanitaryware and Mira showers.

Some 117,000 investors put up £1.36bn for the £33.6m issue, an oversubscription of 39 times. Share allocations will be heavily scaled down at all levels.

"I don't know if it has to do with the issue itself," said Mr Peter Jansen, managing director, attributing part of the response to current exuberance in the market for new issues.

He denied that the issue may have been underpriced at 250 pence per share, giving it a pre-forma historic p/e of 14.5, which is modest by the standards set during recent flotations of Tiscali and Sock Shop.

"We're a long term business. We were priced at the right level," said Mr Jansen.

Caradon emerged after a 1985 management buyout from Reed International and has four divisions in bathroom products, showers, plastic waste and rainwater systems, and plastic mouldings. Operating profits have risen from £9.7m after the buy-out to £10m in the year to the end of March 1987.

Proceeds of the issue of new shares, which comprise 25 per cent of the enlarged equity, will be used to repay loan stock and preference shares issued in connection with the buy-out.

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## Car sales set to top monthly record

BY JOHN GRIFFITHS

THE EXPECTED new car sales boom in August is likely to set a record and could even lead to the 400,000 units threshold being crossed for the first time in a single month, according to the July issue of Glass's Guide, the motor trade monitoring publication.

In August, a new prefix is introduced to car registration plates denoting the year of manufacture. On paper, a car registered in August is one year "newer" than a car licensed in July.

However, there are unlikely to be

any major sales incentive programmes because of a current shortage in supplies of new cars, even to favoured fleet customers, warns the guide.

Earlier this year, Glass's had forecast a return to heavy sales incentives as a result of manufacturers over-supplying the market in their pursuit of increased market penetration.

However, producers like Vauxhall and the Rover Group have reduced output and lost market share rather than make unprofitable

sales. Ford, despite consolidating its position as market leader, has also taken a more conservative approach to production.

As a result, certain versions of the Ford Sierra, Vauxhall Cavalier and Montego are in short supply.

There is every reason to believe that last year's August record of 382,000 sales will be beaten, according to the guide.

The buoyancy of sales in the first half has also led Glass's to revise upwards its total sales forecast for this year to 1.9 m, which would be a

record for the third year in a row. In March, Glass's had suggested a likely output of over 1.88m, implying a slight fall compared with the 1986 record of 1.88 m.

Sales figures for the first 20 days of June show a further increase of 8.64 per cent compared with the same period a year ago. They brought the year-to-date total to \$55,574, up 8.77 per cent on the year-ago period. If his percentage increase were to be sustained for the rest of the year, the market would reach 1.93m units.

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## UK NEWS

## Michael Cassell looks at the crisis in Britain's newest political party

### Alliance fights for its life

THE next round in the fight for the future of the Social Democratic Party (SDP) - Liberal Alliance - formed to break the mould of British politics but now threatening to inflict mortal wounds on itself rather than on its opponents - will be staged today.

The political partnership which, less than three weeks ago, was confidently, if not convincingly, talking of holding the balance of power, is now locked in a remarkable, publicly-staged power struggle of its own.

The outcome will determine whether or not the partnership can survive much beyond the summer. The post-election battle has brought to a head a fundamental difference of opinion within the party leadership over the future structure of the Alliance. It has also exposed a series of personally bitter divisions within the SDP, based on a factionalism which dates back to the first leadership election of 1982 and, a year later, the joint selection of candidates.

The inevitability of the debate and the need for changes to the existing Alliance structure have been increasingly accepted by both parties. But the speed at which the pressure for change has accelerated has surprised and alarmed many activists and led to accusations and counter-accusations over responsibility for forcing the pace.

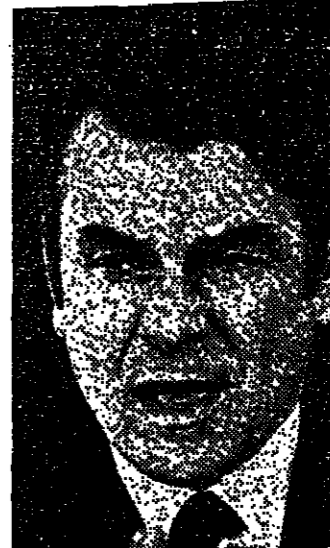
On Friday, Mr David Steel, the Liberal leader, again spelled out what he sees as the stark choice between union or separation and the need for a speedy resolution to the issue. He has left his own supporters - and 7.3m voters - in no doubt about his own preference for a complete union, in which both sides sacrifice their own identity in return for a vote-winning political reformation.

Today, it will be the turn of Dr David Owen, the SDP leader, to reaffirm before a meeting of the party's national committee his outright opposition to any new Alliance framework which wipes the SDP off the political map. Over the weekend, he made it clear that any Alliance merger in the medium-term, would have to take place without him.

The two positions appear irreconcilable. But although the philosophical split might appear unbridgeable at the highest levels of the Alliance hierarchy - and particularly within the SDP leadership itself -



Mr David Steel



Dr David Owen

some of the positions adopted over the last few days are likely to prove less than rock-solid.

Dr Owen is said by the pro-merger faction within the SDP to have applied pressure to his four parliamentary colleagues by threatening to resign. The support of some of them, the argument goes, is only secured because of his threat and the consequent undermining of their own political positions.

But a vote by the SDP membership for full union with the Liberals could see a swift rethink of their anti-merger stance. Evidence suggests that, within both parties, there is a clear majority in favour of such a move. The pro-merger camp within the SDP claims support among rank-and-file members is running 2-1 in its favour, providing the options confronting them are laid out fairly and unemotionally.

But as both party leaders have emphasised, the fate of the Alliance will have to be decided by the respective party membership in ballots to be conducted during the summer. Today's crucial meeting of the leadership is expected to vote on the options to be put on the ballot paper.

Despite last-minute calls for a change of heart and timely reminders of grass roots opinion, a resolute Dr Owen seems certain to put his full weight behind the recommendation of two of his MPs, Mr Robert MacLennan and Mr John Cartwright. They believe the SDP should negotiate a closer, constitutional framework for the Alliance,

but one which preserves the SDP as a separate party.

Their highly controversial alternative, which has been attacked by the pro-union lobby within the SDP leadership for being emotively loaded against a merger, talks of the abolition of the party.

Behind their case lies a belief that the SDP has proved a necessary catalyst in the realignment of British politics, together with an understandable wish not to see a party of five MPs and 60,000 members.

They insist that any new framework must, at least for the present, retain the SDP's distinctive identity.

The anti-merger camp acknowledges that changes are essential so that the partnership can establish better-defined priorities and go on to produce a more clearly focused, joint programme for government.

Any new framework, they say, should include a procedure capable of allocating by January 1989 parliamentary seats for the next general election, as well as broad agreement on priorities for the campaign. They also want to see a mechanism for electing a single Alliance leader in place by January 1990.

But while those objectives may be shared by founder members like Mrs Shirley Williams, the SDP president, Mr Bill Rodgers and Mr Roy Jenkins, they believe full and early union represents the only mechanism which will work, and which, in the eyes of a confused and unconvicted electorate, will restore political credibility to the Alliance.

Frantic weekend communications between Mrs Williams and Mr Des Wilson, her Liberal counterpart, were designed to try and strengthen the hand of the pro-merger camp, which will fight at today's meeting for a less strident, more conciliatory option which can also be put to the Liberal membership.

Win or lose, both Liberal and pro-merger members of the SDP leadership will mount a campaign to give a warning that the Alliance will collapse unless it proceeds quickly to full union.

The Williams motion would ask whether members are in favour of negotiating a closer association between the two parties and then inquire whether they should talk on the basis of retaining separate identities and organisations or on the basis of forming a new party.

Her call for a common set of principles, a single democratically elected, policy making structure and a one-member-one-vote constitution fit in neatly with the guidelines spelled out on Friday by Mr Steel.

Dr Owen, however, appears confident that the anti-merger ballot recommendation will today be accepted by a majority of the national committee and that party members will August have made their views known. Mr MacLennan stresses that the exercise is consultative but believes it will be conclusive.

The SDP leader's inseparable link with the "anti-union" wing of the SDP inevitably means he will be asking his membership to back him and the concept of a separate SDP or telling him to depart, albeit with his political principles intact. It is a choice they will not want to make, but one which their leader appears determined to impose upon them.

If Dr Owen wins, his opponents within the party can be expected to withdraw from the scene or perhaps join the Liberals. He will have a mandate to re-open talks with the Liberals about some form of continuing programme of co-operation.

The present Liberal leadership appears as diametrically opposed to that prospect as Dr Owen is against a full merger. Give its numerical superiority and the apparent inter-party majority in favour of total union, it looks as though Mr Steel's confidence about eventually winning the fight might be soundly based.

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## UK NEWS

## Earnings pace fuels inflation worries

BY PHILIP STEPHENS, ECONOMICS CORRESPONDENT

THE CENTRAL pledge in the Conservatives' general election manifesto was that it would not be content until Britain had stable prices with inflation completely eradicated. London's financial markets have still to be convinced.

Amid the City of London's post-election jitters, worries about inflation prospects have begun to resurface.

Behind the concerns have been booming credit, soaring house prices, buoyant wages, and strong growth in output. The message is that the Treasury may have won the most recent battles against accelerating price rises but that the war is far from over.

Few, if any, City economists believe that there is an imminent risk of a renewed inflationary spiral. The consensus among independent forecasters points to an annual rate of retail price inflation of 3.9 per cent in the fourth quarter of 1987, fractionally below the present rate of 4.1 per cent.

The problem, according to the forecasters, is that that will represent a temporary dip. The pace of price rises will then accelerate again to 4.5 per cent by the end of 1988.

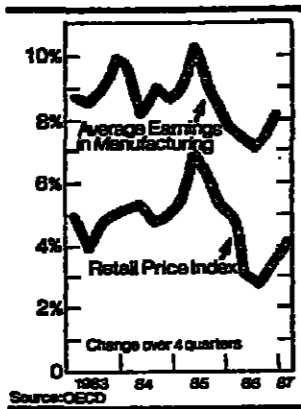
That worry is compounded by a fear that the risks, in market jargon, are "on the upside": if the central forecast turns out to be wrong, the chances are that actual inflation will be higher rather than lower.

Mr Nigel Lawson, the Chancellor of the Exchequer, can claim justifiably that most economists in the past have tended to be too pessimistic. They have underestimated his determination to head off an upturn in prices by, for example, raising interest rates.

The latest concerns, however, are not without substance. The first worry is the rate of earnings growth, which has been running at an annual 7% per cent and, within the last few weeks, has shown some signs of accelerating.

A surge in manufacturing output, strong corporate profitability and evidence of some capacity constraints are seen to have heightened the risk of a bout of "wage-push" inflation.

The Government's economic strategy assumes that high wage awards will translate over the medium-term into falling employment rather than higher inflation - a



tight monetary policy will ensure that producers cannot pass on higher wage costs to consumers. As the accompanying chart shows, however, there is a close short-term "fit" between wage rises and inflation.

In manufacturing, the impact of earnings growth on unit wage costs has been offset substantially by productivity gains. Underlying growth in manufacturing productivity is running at between 4 and 4% per cent a year, but because of favourable cyclical factors the increase since the start of 1986 has been over 6 per cent. That has pushed down the annual increase in unit wage costs to about 1 per cent.

Productivity growth in the much larger services sector, however, is considerably weaker, while earnings are rising only fractionally less fast than in manufacturing. So for the economy as a whole productivity gains average only about 2% per cent a year, leaving a "core" rate of labour cost inflation of perhaps 4% per cent.

The second warning signal comes from the buoyant rate of monetary growth in the economy. The broad money supply measure, M3, once the centrepiece of official policy but now dropped by the Treasury as a target, has been expanding by nearly 20 per cent a year, while bank credit has been increasing by £2.5bn a month. House prices, another classic indicator of a potential inflationary build-up, have also been rising sharply.

From this Mr Tim Congdon, an economist at securities house I. Messel, concludes that Britain is now experiencing something akin

to the boom of the early 1970s. Unless the Government raises interest rates, the result will be a rapid acceleration in inflation.

That view is at the pessimistic end of the spectrum, but concern about the potential if not actual implications of monetary and asset price trends has persuaded the Bank of England to put the brake on further falls in borrowing costs.

Thirdly, the international environment is no longer as favourable to the process of disinflation. Oil prices have stabilised and could edge higher, the fall in most commodity prices appears to have levelled off, and inflation in other industrialised nations is on a gently rising trend. The arguments, however, are not all on one side.

Monitoring of private sector pay settlements by both the Confederation of British Industry and the Treasury suggest that if anything they are now running slightly below last year's levels - at perhaps 5 rather than 6 per cent. Buoyant earnings growth may thus reflect overtime payments rather than a general upturn in wages pressure.

A recent analysis by James Capel, the City securities house, argues that worries that the economy is in danger of "overheating" because of capacity constraints and skill shortages are exaggerated.

The experience of the last few years also suggests that financial innovation and liberalisation have made the links between monetary growth and future inflation more tenuous than ever. The build-up of liquidity in the economy would be a risk in the event of an external inflationary shock - a sudden fall in the value of the pound, for example - but does not necessarily represent a danger in itself.

And if the international environment is not as favourable as hitherto, the sluggish pace of growth in most other industrialised countries suggests that the threat of much faster imported inflation is small.

Overall, the conclusion might be that - provided that the Government does not relax its anti-inflation policy - the task of holding inflation at close to, or a little above, present levels should not be insurmountable.

What is much harder to see is a significant stride over the next two years towards the goal of stable prices.

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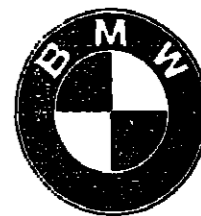
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**REDEMPTION DATE IS JULY 29, 1987**  
**CONVERSION PRIVILEGES EXPIRE AT THE CLOSE OF BUSINESS**  
**ON JULY 29, 1987**

June 29, 1987

To the Holders of 7% Convertible Subordinated Debentures Due 2001:

NOTICE IS HEREBY GIVEN that Burlington Industries, Inc., a Delaware corporation (the "Company"), has called for redemption on July 29, 1987 (the "Redemption Date"), all of its outstanding 7% Convertible Subordinated Debentures Due 2001 (the "Debentures") at the redemption price of 108 percent of their principal amount. The redemption price for each \$1,000 in principal amount of Debentures is \$1,080.00, plus \$68.83 in interest accrued and unpaid to the Redemption Date, for a total redemption price of \$1,148.83 per \$1,000 in principal amount of Debentures (the "Redemption Price"). The Redemption Price will be due and payable on each \$1,000 in principal amount of Debentures on the Redemption Date. On and after the Redemption Date, interest on the Debentures will cease to accrue and the holders of the Debentures will not have any rights as such holders other than the right to receive the Redemption Price, without additional interest, upon surrender of their Debentures, together with all coupons, if any, for interest appertaining thereto maturing after the Redemption Date.

The holders of the Debentures have the right to convert their Debentures into Common Stock of the Company, \$1.00 par value per share, at the conversion price of \$46.00 per share of Common Stock. So long as the market price of the Common Stock of the Company is \$52.85 per share or higher, holders of Debentures will receive, upon conversion, Common Stock (and cash in lieu of any fractional shares) having a greater market value (without taking into consideration sales expense) than the cash they would receive upon redemption. No adjustments in respect of accrued interest will be made for holders on conversion of the Debentures. No fractional shares are issuable upon conversion. The Company will make an adjustment for any fractional share interest in cash equal to the current market value of such fractional share interest computed to the nearest cent on the basis of the reported last sale price regular way of the Common Stock or, in case no such reported sale takes place on such day, the average of the reported bid and asked prices regular way of the Common Stock, in either case on the New York Stock Exchange on the last trading day prior to the date of conversion.

As an alternative to redemption or conversion, holders of Debentures may sell their Debentures through customary brokerage facilities.

On May 20, 1987 the Company entered into an agreement ("Merger Agreement") pursuant to which BIL Acquisition Corp., a Delaware corporation organized by Morgan Stanley Group Inc., will be merged into the Company. The Merger Agreement, as amended, provides that the holders of Common Stock of the Company will be entitled to receive, in exchange for each share of Common Stock, \$78 in cash. The consummation of the merger, which is subject to certain conditions, is expected to occur in late July or in August 1987. If the Merger Agreement is terminated or for any reason the transactions contemplated thereby are not consummated, the price of the Company's Common Stock could be materially adversely affected.

In order to be converted into Common Stock, the Debentures must be presented, surrendered, and received before the close of business at the place of conversion on July 29, 1987, together, in the case of Debentures in bearer form ("Bearer Debentures"), with all coupons for interest appertaining thereto maturing after such date, to any of the following conversion agents: (a) Bankers Trust Company, Payment and Exchange Services Division, 123 Washington Street, New York, New York 10015, U.S.A. (b) Bankers Trust Company, Dashwood House, 69 Old Broad Street, London EC2P 2EE, England, (c) Banque Indosuez Belgique (formerly Banque du Benelux S.A.), rue des Colonies 40, 1000 Brussels, Belgium, (d) Banque Internationale a Luxembourg S.A., 2 Boulevard Royal, L-2953 Luxembourg, Grand Duchy of Luxembourg or (e) Credit Suisse, Paradeplatz 8, 8021 Zurich, Switzerland.

In order to be redeemed, Bearer Debentures, together with all coupons for interest appertaining thereto maturing after the Redemption Date, must be surrendered at the specified offices of any of the following paying and conversion agents: (a) Bankers Trust Company, Dashwood House, 69 Old Broad Street, London EC2P 2EE, England, (b) Banque Indosuez Belgique (formerly Banque du Benelux, S.A.), rue des Colonies 40, 1000 Brussels, Belgium, (c) Banque Internationale a Luxembourg S.A., 2 Boulevard Royal, L-2953 Luxembourg, Grand Duchy of Luxembourg or (d) Credit Suisse, Paradeplatz 8, 8021 Zurich, Switzerland. In order to redeem registered Debentures, such Debentures must be surrendered at the Corporate Trust Office of Bankers Trust Company in the Borough of Manhattan, Payment and Exchange Services Division, 123 Washington Street, New York, New York 10015, U.S.A., or, at the option of the holder, at the office of any of the paying agents named above, subject to applicable laws and regulations.

June 29, 1987

By Burlington Industries, Inc.

## UK NEWS

### US fund views network TV with appreciative eyes

BY RAYMOND SNODDY

NEW YORKER Mr. Allan Raphael finds it difficult to be too complimentary about the production values of the programmes he sees on the British television screen. From the slick camera angles at sporting events to the quality of the acting and interviewing techniques, he says quite simply: "It's just superior to every other television I have ever seen."

Mr. Raphael is, however, no ordinary viewer and what he admires most of all about British television is the price/earnings ratios of the commercial television companies.

Over the past year Mr. Raphael, portfolio manager for Soros Fund Management, an offshore fund with investments of \$2.2bn (£1.4bn) and a reputation for growth, has built

up stakes in nine of the 16 commercial television companies in Britain.

The fund began investing in British television a year ago and Allan Raphael is well pleased with the result. An investment of \$2m has already turned into a stake worth \$40m.

Soros has a 7.2 per cent stake in TV-am, the commercial breakfast station, but the Independent Broadcasting Authority will only allow him to vote with 1 per cent of his shares because it is non-European Community ownership.

Despite the restrictions, Soros has built up shareholdings of less than 5 per cent in everything from Scottish, HTV, Anglia and TVS to the quality of the new breed of commercial managers in many ITV companies - Yorkshire, Central,

Thames and London Weekend.

It also has a stake in Granada, the other national network company, but sold because of the company's involvement in direct broadcasting by satellite, a concept which has been a disaster in the U.S.

Last year's flotations of TV-am, Thames and Yorkshire focused the attention of Mr. Raphael, a former stockbroker analyst before he moved to Soros three years ago, on the UK television market.

Apart from growing confidence in the UK economy, the strong demand for television advertising time and the quality of the new breed of commercial managers in many ITV companies.

### Consultants to assist changes in welfare

By John Gapper

PRIVATE COMPUTER consultants are being brought in by the Government to help implement the Social Security Act by next spring in the aftermath of selective strike action by civil servants which is due to end this week.

Twenty specialist programmers are to start work at the Department of Health and Social Security's North Fyde Centre today as about 300 civil servants on strike there and at three other centres start to return to work.

The consultants will help prepare for the switch from Family Income Supplement to Family Credit after delays caused by the 11-week strike at four centres as part of the campaign of disruption over pay.

Work at one centre on the planned move from supplementary benefit to the new Income Support Scheme has also been seriously affected by the strike of programmers belonging overwhelmingly to the Society of Civil and Public Servants, which has now suspended its action.

A spokesman for the Department said that it was committed to implement the Social Security reforms by next April and would do so whatever the method chosen.

About 125 Customs officers working on export clearance at 12 depots have returned to work.

### IBM 'runs computer checks on staff'

BY PHILIP BASSETT, LABOUR EDITOR

IBM UK, the British arm of the world's largest computer company, which is predominantly non-union, uses the services of the Economic League, a free enterprise organisation which provides information to companies on potential employees.

Internal IBM documents show that IBM UK paid £5,000 to the Economic League for services provided by the organisation in meetings and

over the telephone.

Much of the league's work involves providing information to its 2,000, mainly corporate subscribers, on people who the League considers to be politically subversive.

Earlier this year, Mr. Douglas Hurd, Home Secretary, ordered a police inquiry into the league's affairs following allegations in a television programme that it had been

illegally using police criminal records as part of its vetting procedures. The police were unable to find evidence.

The link between IBM and the Economic League, which regards many prominent trade unionists as worthy of inclusion on its lists, is made in a report by the Datalink newspaper, which reports on the software industry.

## FT LAW REPORTS

### Judgment debtor must reveal foreign assets

INTERPOOL LTD v GALANI Court of Appeal (Lord Justice Lloyd and Lord Justice Balcombe); June 23 1987

A JUDGMENT debtor who is ordered by the court to submit to examination as to his means is obliged, if asked, to answer questions and produce documents relating to his assets abroad.

The Court of Appeal so held when dismissing an appeal by Mr. John Anthony Galani from a decision of Sir Neil Lawson, sitting as a Queen's Bench judge in chambers, that Mr. Galani was obliged to answer questions relating to his assets abroad for the purpose of satisfying a judgment obtained against him by Interpool Ltd.

Order 48 rule 1(1) of the Rules of the Supreme Court provides: "Where a person has obtained a judgment... for the payment... of money, the court may... order the judgment debtor... to attend before such master... as the court may appoint and be orally examined on... (a) whether any... debts are owing to the judgment debtor, and (b) whether the judgment debtor has any... property or means of satisfying the judgment... and the court may also order the judgment debtor... to produce any books or documents... relevant to the questions..."

LORD JUSTICE BALCOMBE, giving the judgment of the court, said that on August 11 1978 Mr. Galani, a Greek citizen living in France, guaranteed monies due to Interpool, a US company, from Librarian, Greek and French shipping

companies in which he had interests.

On October 21 1985, Interpool obtained judgment on the guarantees against Mr. Galani in Paris, his place of domicile. In 1985 he came to live in North London, and still lived there with his wife and children.

On May 9 1986 the Paris judgment was registered as a judgment in the Queen's Bench Division pursuant to the Foreign Judgments (Reciprocal Enforcement) Act 1933. The amount for which judgment was entered was \$13,742,909, equivalent to £9,161,939. Mr. Galani did not contest the registration or the validity of the judgment.

On July 30 1986 an order was made for oral examination of Mr. Galani under Order 48 of the Rules of the Supreme Court. Examination began on October 16 before Deputy Master Rose.

Mr. Galani objected to answering questions, save as to his assets within the jurisdiction of the court. The Master referred an issue to the judge in chambers in the following terms: "Is the judgment debtor obliged to answer any question as to... property or means of satisfying the judgment which are not within the jurisdiction... or to produce any books or documents... relevant to such questions?"

Sir Neil Lawson answered in the affirmative, in favour of Interpool. Mr. Galani now appealed from that decision.

Order 48 was part of a group of Orders, comprising Orders 45 to 52, prefaced by general words "Enforcement of judgments and orders." It con-

tained no express reference to locality of the debts, property or other means. In contradiction, Order 49, which dealt with attachment of debts due to the judgment debtor, expressly provided that the person whose debt was to be attached ("the garnishee") must be within the jurisdiction.

Mr. Jones for Mr. Galani argued: (1) the court did not exercise extra-territorial jurisdiction; (2) the court would not enforce its judgments by execution, save as to assets within the jurisdiction; (3) Order 48 was merely part of the machinery for enforcement of judgments - accordingly any examination under the Order was limited to assets within the jurisdiction.

While the first proposition was true as a general proposition, the second required careful examination, especially in so far as it related to garnishee proceedings and charging orders.

The decision in *Richardson [1937] P 228* that there was no jurisdiction to garnish a debt which was not recoverable within the jurisdiction, was no longer good law - see *SCF v Masri (No. 3) [1987] 3 WLR 81* 95, 96 and *Deutsche Schachtbau v Rakoff [1987] 2 FTLR 17*.

If the court had jurisdiction to garnish a debt recoverable outside the jurisdiction, even though as a matter of discretion it was unlikely to do so, it seemed there must be power under Order 48 to discover the existence of such debts.

Section 2(1)(a)(ii) of the Charging Orders Act 1979 provided that a charging order might be made in respect of any interest held by the debtor beneficially under any trust.

It was difficult to see why a more restrictive limitation should apply to that type of asset than applied to a debt liable to execution under Order 48. There should therefore be jurisdiction to charge an interest under a foreign trust. In any event it might be necessary to have an examination of the judgment debtor to find out the nature and extent of his interest, to see whether it was a foreign trust and if so, whether the court should in its discretion make a charging order.

Far from there being justification for limiting the operation of Order 48, as was submitted for Mr. Galani, there was every reason for giving it the wider meaning for which Interpool contended.

The provisions for the reciprocal enforcement of judgments between states were continuously expanding. It was consistent with that pattern of legislation that the judgment creditor should have available to him a procedure under Order 48, which he could utilise to find out whether, in default of English assets, there were foreign assets available to satisfy his judgment. The use of Order 48 for that purpose was not "regulating the conduct of the judgment debtor abroad" so as to be contrary to the principle in *MacKinnon v Donaldson Lufkin [1986] 1 FTLR 123*.

The judge came to the correct decision. The appeal was dismissed.

For Mr. Galani: M. E. Jones (Coward Chance).

For Interpool: Jeffrey Gruder (Birchbeck Montagu).

By Rachel Davies Barrister

### Developers vie for business village

BY PAUL CHEESRIGHT, PROPERTY CORRESPONDENT

A VILLAGE with 3,000 homes, a business park and a landscaped country park has been proposed by Alfred McAlpine Homes East at Caxton Gibbet, 11 miles west of Cambridge.

A planning application for the village, which would be called Swansley Wood, has been submitted to the South Cambridgeshire Council by the Richard Wood Partnership, a town planning and surveying practice.

The submission has been timed

to make certain that the proposal is considered at the forthcoming public examination of the review of the Cambridgeshire County Structure Plan, which sets out future policy for land use.

The McAlpine proposal joins 12 others for new villages around Cambridge. The county planners first thought that two new villages would be needed to cope with the increased pressure for housing in the area, but then revised their estimate to one which would be situated north west of the city.

Mr. Peter Frampton, a partner at Richard Wood, said yesterday: "We are firmly convinced that the county council is selecting the wrong site." Housing pressure is to the south and west of Cambridge, not to the north.

McAlpine and Richard Wood hope to use the public examination to convince the planners either that there should be two villages or that the site chosen should be to the west, along the A45 corridor.

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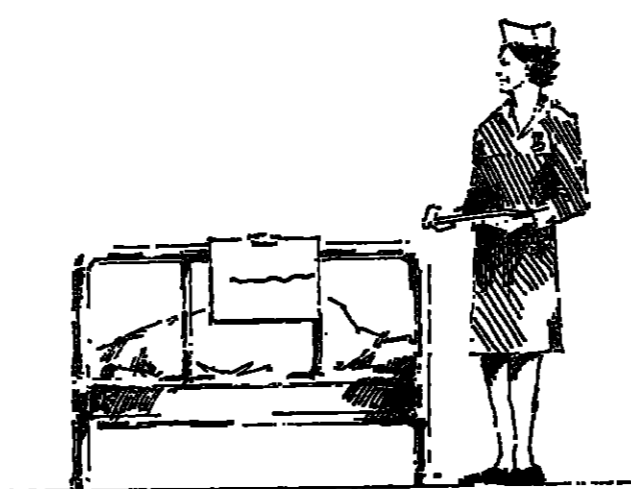
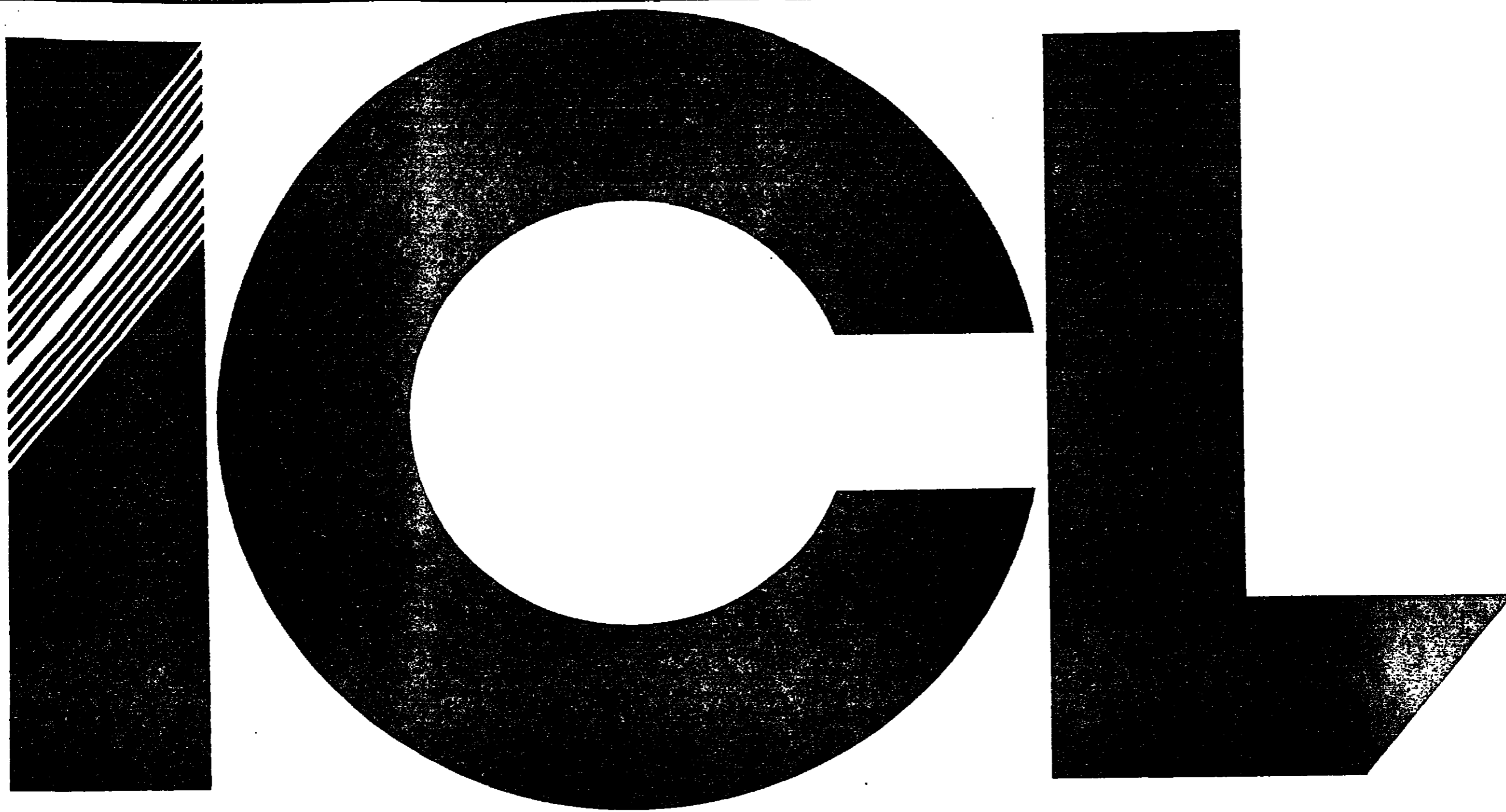
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## THE MONDAY PAGE



JOHN PLENDER

THERE have been some strange juxtapositions in the news headlines of late. First we have Mr Gorbachev beating the men from Gopalan for their failure to satisfy consumer demands and calling for the decentralisation of the Soviet economy. Then we are told that Mrs Thatcher is becoming increasingly authoritarian as she seeks to impose a national curriculum on British schools and set a

uniform business rate.

Role reversal is also becoming the norm in the anti-podes. In the run up to the general election in Australia, the markets are worried about the size of the budget deficit that might result if the right-wing opposition comes to power; a victory for Mr Bob Hawke's Labor Party is regarded as bullish for the stock market. In New Zealand, a key question about the Labour Government's economic policies is whether they are more properly described as Reaganite or Thatcherite.

And what are we to make of the news from South Korea? Amid all the upheavals, President Chun Doo Hwan last week had a meeting with the co-leader of the opposition, Mr Kim Young Sam. Mr Kim called it a failure. But it did at least happen—and in a country which has long been regarded by the west as one of the world's least lovely regimes. Nobody would wish to defend the heavy-handed

authoritarianism of successive South Korean leaders. But it should be said that President Chun, unlike former President Marcos of the Philippines, is not under attack for corruption. His opponents object, with justice, to his undemocratic proposals for the presidential succession. Yet he has at least refrained from proposing a dynastic solution of the kind adopted by Mr Kim Il Sung in North Korea, where opposition parties simply do not exist.

This brief catalogue serves as a reminder of the yawning gulf between traditional political rhetoric and the substance of the underlying politico-economic debate. If you really believe that the ideology of right and left, or of laissez-faire and dirigisme, still has some relevance to economic growth, try to make sense of a tour around the Pacific's more successful economies.

Since the Meiji Restoration, Japan has been dirigiste in economic management to an

extent that would cause nothing but discomfort to President Reagan and Mrs Thatcher. South Korea's Government is chock-a-block with planners. Yet despite this handicap (as orthodox western economists tend to see it), the country's Economic Planning Minister, Mr Chung In Yong, has just announced a revised growth forecast for 1987, up from 8 per cent to 10 per cent.

Japan, South Korea and Taiwan are all thoroughly mercantilist in outlook and have enthusiastically protected both infant and adult industries. In contrast, Hong Kong has maintained open markets, while generating double figure growth rates. Yet Professor Milton Friedman's brilliant propagandising about Hong Kong as the ultimate tribute to the merits of laissez-faire is plain wrong, even though it continues to cast a spell over the makers of television documentaries. Hong Kong is in reality a highly unusual mixed economy where a sizeable

budget surplus is used for investment in housing and infrastructure. In the vibrant private sector, entrepreneurs finance the businesses that generate most of Hong Kong's economic growth from their own family savings, while the stock market is largely given over to the property and the financial sector.

Where, then, is the real political divide? More often than not it is between the progressive radicals and the conservatives with a small "c"; between those who are prepared to take on the entrenched interests in society and those who choose to work with them. Mr Gorbachev and Mrs Thatcher are clearly in the progressive camp, which may help explain why they got on so well at their recent meeting despite differences on defence. President Reagan and Mr Nakasone of Japan belong here too, as does Mr Lange of New Zealand, whose defence policy nonetheless offends Mr Reagan.

Perhaps these progressive

radicals tend to have a presidential style, even when they are not operating in a presidential system, precisely because the attack on vested interests calls for the exercise of strong political will.

By contrast, most of the leaders of the newly industrialising countries are conservatives, which is understandable enough: the vested economic interests have not had as much time to take root and put obstacles in the way of economic adjustment. West Germany's Mr Kohl, on the other hand, must count as a pronounced aristocrat, by any standard. Britain's opposition leader Mr Neil Kinnock has the misfortune, in electoral terms, to be progressive on defence, but conservative in his attitude to the unions.

None of this should be taken to imply that there are no eternal verities in politics. In the final analysis, security is always more important than economics, even if Belgians or New Zealanders need to pay less attention to it than South Koreans. And there remains a clear-cut distinction between states that are committed to democratic freedoms and those that are not. But in economics it is surely time for ideologues to find a new vocabulary.

## An acid test of good intentions



JUST AS the Queen's Speech was politically emollient in its promise "to maintain and improve" the National Health Service (as Joe Rogaly described it on Friday) so the avowed approach to law and order is, for this government, uncharacteristically rational and unemotional in tone.

Absent from the speech was the usual language of the battle field—the war against crime, the "fight against criminals" and other such distracting phrases which provide the staple diet of unthinking politicians. The Government intends instead to remain determined to tackle the problems of crime. It goes on to reveal plans to augment the resources of police forces and to establish a national crime prevention organisation. Will the reality match the realism, given this Government's record of a barely muted, punitive approach to crime?

The immediate instrument for effecting the Government's policy towards crime will be the projected Criminal Justice Bill, the bulk of which will be a hangover from the last parliament. Refinements and additions to the bill, introduced last November, and which had passed through the Commons but reached only the Second Reading stage in the Lords, may be condemned as piecemeal. The bill will be a miscellaneous collection of generally uncontroversial provisions. The setting up of the Serious Fraud Office, in compliance with the recommendations of the Roskill Committee, went through on the last night of the session. That represented a significant step towards modernising the criminal justice system when dealing with complex fraud cases. The legislation did not, however, contain the recommendation to set up a special tribunal of a High Court judge and two professional assessors in place of jury trial.

The residue of the old bill is replete with provisions that will command general approval but also a few that will arouse opposition from both sides of the House. The bill will include new rules of evidence—witnesses giving their evidence across national boundaries via a live video-link and for testimony from children in cases of sexual and physical abuse to be similarly receivable; a limited extension of the court's powers to order confiscation of the profits of crime under the Drug Trafficking Offences Act 1986 to other offences where the value of the offender's profits is at least £10,000; the placing on a statutory footing of the Criminal Injuries Compensation Scheme, which has operated successfully on an ex gratia basis since 1964; and a major reform of the UK extradition law so as to simplify dramatically the method whereby fugitive criminals can be surrendered to foreign, non-Commonwealth countries.

Two provisions in the old bill have already provoked a degree of hostility. The proposal to abolish the right of the defence to a peremptory challenge to jurors has almost aroused cries of horror from defence lawyers and civil libertarians. The Government will hardly be shaken if this single incursion into a jealously guarded protection to accused

persons in jury trial is rejected (as it might well be) by the Lords. The Government will be rather more unhappy if it loses its attempt to deal with "over-lenient" sentences passed in the Crown Courts, since the Prime Minister has been vocal in promising a reform that has wide public appeal.

The clause in the old bill would empower the Attorney General, where he considers that a sentence by the Crown Court raises a question of public importance, to refer the case to the Court of Appeal. That court would then be able to express an opinion on the sentence passed and the principle of sentencing to be observed in similar cases, without having any power to alter the sentence.

The Lord Chief Justice, Lord Lane, expressed, during the Second Reading in the Lords, his dislike for any such provision. But unlike other opponents, Lord Lane would like the prosecution to have a right of appeal against any inadequate or inappropriate sentence by a trial judge, with a specific power in the Court of Appeal to increase the sentence. While such a proposal would find support within the judiciary and among some criminal lawyers, it instinctively arouses in many people the view that such a power would smack of "power in the hands of the English justice. The likely debate in and out of parliament will focus on the role of the prosecution in a criminal trial, which has become easier to define since the establishment last year of a national Crown Prosecution Service in place of 43 prosecution authorities.

None of this remotely touches the most pressing problem of society's response to crime. Imprisonment is still the core of the English penal system, and despite efforts to encourage courts (with some marked success) to use non-custodial penalties, the prison population, much of it in squalid conditions, grows at a pace that no amount of increased accommodation will deflect. The Government's predictable response has been to engage in a prison-building programme at huge cost in terms of capital outlay and annual maintenance. Tying with the idea of creating a private sector, even if confined to remand prisons (for those in custody awaiting trial) will do nothing to alleviate the overcrowding. And establishing private prisons will simply store up trouble with both prison staff and inmates. It will be the Government's penal policy towards offenders that will provide the acid test of its good intentions.

## INTERVIEW

## Manufacturing with passion

Terry Dodsworth talks to Karlheinz Kaske, chief executive of Siemens

IN DECEMBER 1985, Mr Karlheinz Kaske, chief executive of Siemens, the world's fourth largest electrical and electronics group, was telephoned by a New York investment banker with a tempting proposition. Did he want to buy ITT's telecommunications company in Europe, a deal which would have turned Siemens into the second largest telecommunications company in the world?

"I had to tell the banker that it would be unthinkable for Siemens to acquire these ITT businesses," he says. "The West German Cartel Office would never have allowed it." Mr Kaske tells this story to illustrate the shackles imposed on European companies by what he regards as a hotchpotch of outdated regulations. It is also one of his responses to the charge that West Germany runs a protectionist policy in favour of its large manufacturing companies, sheltering them at home to give them a base from which they can compete more effectively overseas.

On the contrary, he says, West Germany runs the toughest monopolies policy in western Europe, much tougher than France, the home base of Alcatel, which eventually carried off the ITT business.

In the past few years, Mr Kaske, Siemens and West Germany have had to take plenty of criticism on the protectionist issue from the US: as the largest electrical and electronics combine in Europe it is a natural target. But the pressure from America also intensified enormously during the notorious Compagnie Generale de Constructions Telephoniques (CGCT) affair, in which Siemens was pitted against American Telephone and Telegraph in a bidding contest for the French telecommunications company.

Both Siemens and AT&T were beaten at the last minute by a compromise takeover proposal from Ericsson of Sweden. But the affair still rumbles.

First of all, says Mr Kaske, the bid for CGCT was "mainly a French story. The French Government came to us and asked us to make an offer."

Second, the West German telecommunications market is relatively open—40 per cent is held by imported goods; and Europe has proved a happy

hunting ground for the Americans.

Third, the American public switch business is not an easy one for a foreign company, despite the much-vaunted US liberalisation. It has cost Siemens \$200m (£125m), he says, to adapt its products. Merely to submit documents to Bellcore, the equipment testing agency, cost \$10m in fees. "You can do the same thing at the Deutsche Bundespost for nothing."

Fourth, Dr Kaske contends that Europe's fragmented regulatory structure is a disadvantage for European companies in world markets. Each country has inevitably developed its own technology. Yet the US, with a third of world sales in electrical and electronic goods, about eight times bigger than the West German market, has a common set of standards. This gives American companies—and to a lesser extent, the Japanese—a great competitive

### PERSONAL FILE

1928 Born in Essen  
1950 Doctorate in Physics; joined Siemens  
1953 Lecturer in mining school at Aachen  
1960 Rejoined Siemens  
1967 Adviser to Fuji Electric  
1975 Member of Siemens's managing board  
1977 Head of the energy technology sector  
1981 Chief executive

advantage, particularly in research and development costs.

It only seems a step or two further to the proposition that Siemens could be heading for trouble, weighed down by the problems of Europe. Indeed, the West German group has often been criticised as a prime example of a company infected by "eurosclerosis," slow-moving and bureaucratic, steadily losing the ability to innovate and compete effectively in world markets. Even evidence of the company's success—its cash mountain of about DM 20bn (£8.8bn)—has been attacked as indicating weakness in shifting resources into expansion.

If Mr Kaske has doubts on these issues, it is difficult to detect them. He believes it is

important for Europe to develop common standards which will reduce barriers to trade. But there is no suggestion that the battle has been lost to the foreigners. Quite the contrary. "We are absolutely competitive worldwide," he says. "Our exports are higher than other countries' on a dollar quality and performance is as good."

Delivered by many European executives, this sort of assessment of his company's prospects would sound like a bad case of corporate self-delusion. But Mr Kaske, a large, somewhat rumpled-looking man who speaks impeccable English, has a way of sounding utterly objective in his judgments, like a scientist drawing the only logical conclusion to a series of propositions.

This sense of purpose and self-confidence flows from an intimate knowledge of the company and its markets. Indeed, Mr Kaske is typical of a West German managerial caste which lays great emphasis on technical expertise, methodical planning and long-term technology.

A physicist, who took his doctorate at the precocious age of 22, he has been with the company for 37 years, apart from a seven-year aberration when he taught at a mining school in Aachen. He rose fast through the managerial ranks, becoming chief executive at 53. He has had plenty of exposure to the toughest overseas markets, having spent a year as adviser to Fuji Electric, Siemens's long-term associate in Japan.

Indeed, it would be hard to find a subject on which he speaks with more passion than manufacturing, and he takes issue with trends in the US. American companies, he says, have displayed a cavalier attitude to their manufacturing base. He traces many of the trade deficit problems to self-inflicted damage caused by losing key elements of electronic production.

"It is a trend which started about 25 years ago when the US gave away consumer electronics manufacturing to the Far East," he says. "Consumer electronics is that part of the business which uses a high volume of semiconductor products. So the Japanese got two things at the same time—first they took control of the consumer products and then they moved into the



manufacturing of the micro-electronics which go into them."

America is still falling into the same trap, he adds. "Five years ago, the same mistake was made when IBM and others went and gave away their designs of personal computers to be made in Taiwan, Korea and Singapore."

During his six-year stint as chief executive, Siemens has, if anything, intensified its commitment to manufacturing, pouring funds into research and development and investing heavily in electronics. R and D spending jumped from DM 3.2bn in 1981 to DM 5.4bn last year, a ratio of 11 per cent on sales. In the same period capital investment leapt from DM 2bn to DM 6.1bn.

This acceleration of development in the electronics field has done a great deal in the last year or two to counter the charge that the company was stagnating. It is also making Siemens look increasingly like an integrated electronics group of the type which has been championed in Japan.

In leading this policy change, Mr Kaske is believed to have done more than a little forceful nudging in the corridors of power at Siemens. But

his explanation of the strategy categorises it as natural evolution. "Siemens has always tried to be in phase with market changes," he says. "We have to be where the markets are, technology-wise and country-wise. If you cannot sell a mechanical typewriter any more, you have to make an electronic one."

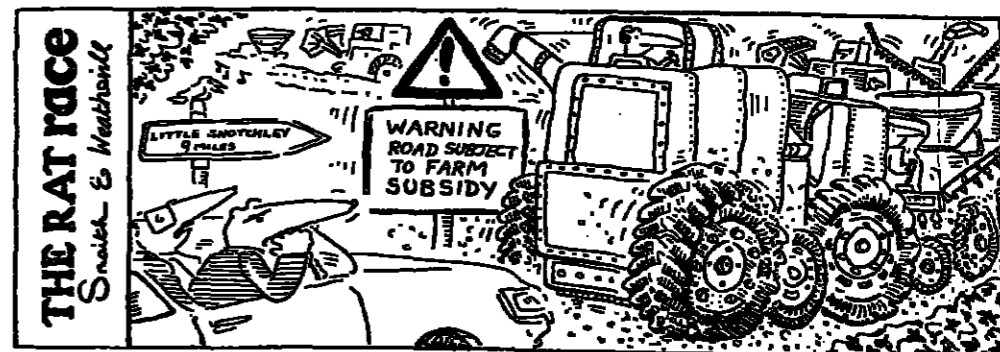
It is easy to criticise Siemens—many do—for following the market rather than leading it. Yet it is hard to deny that the company can be extremely effective at using its fire power when it has spotted an opportunity—witness its move into the US at the beginning of the 1970s.

Expansion in America was undertaken because of a realisation that Siemens's traditional export business in Third World infrastructure projects for power stations and electrical installations was likely to stagnate. In the event, the oil crisis has more than vindicated Siemens's approach. "There are some parts of the world where there is no money left," says Mr Kaske. "The great thing about the US is that those people have money to pay."

The US is an equally good example of Siemens's conser-

vative, step-by-step, long-term approach to business. In the last 15 years, the group's American sales have risen from about \$50m a year to \$2.6bn and employment has risen to 26,000. It will soon be a net exporter from its US factories. Yet, up to now, says Mr Kaske, Siemens has not booked a cent of profits from its US investment.

To wait that long for earnings to show up illustrates three things: the group's extremely cautious West German accounting tradition, the solidity of the balance sheet that allows the company to take the long view and its sheer patience.



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# FINANCIAL TIMES SURVEY



Just as the M4 motorway provided the impetus for development west of London, so completion of the

M25 orbital route around London is now spurring regeneration of the North Kent Coast between Dartford and Sheerness, resulting in the growth, reports Alastair Guild, of...

## An Eastern Corridor

WHEREVER YOU look, from London's docklands, past Dartford and along the coast to Sheerness, there is one inevitable conclusion. The scale and intensity of investment which prompted that now well worn cliché, the Eastern Corridor, currently justifies talk of a similar phenomenon being under way to the east of the M25.

There are crucial differences. The coastal strip's economy was, until recently, more reminiscent of parts of the North than the largely green field, campus-style developments to the west of London. There is also less emphasis, so far, on high technology.

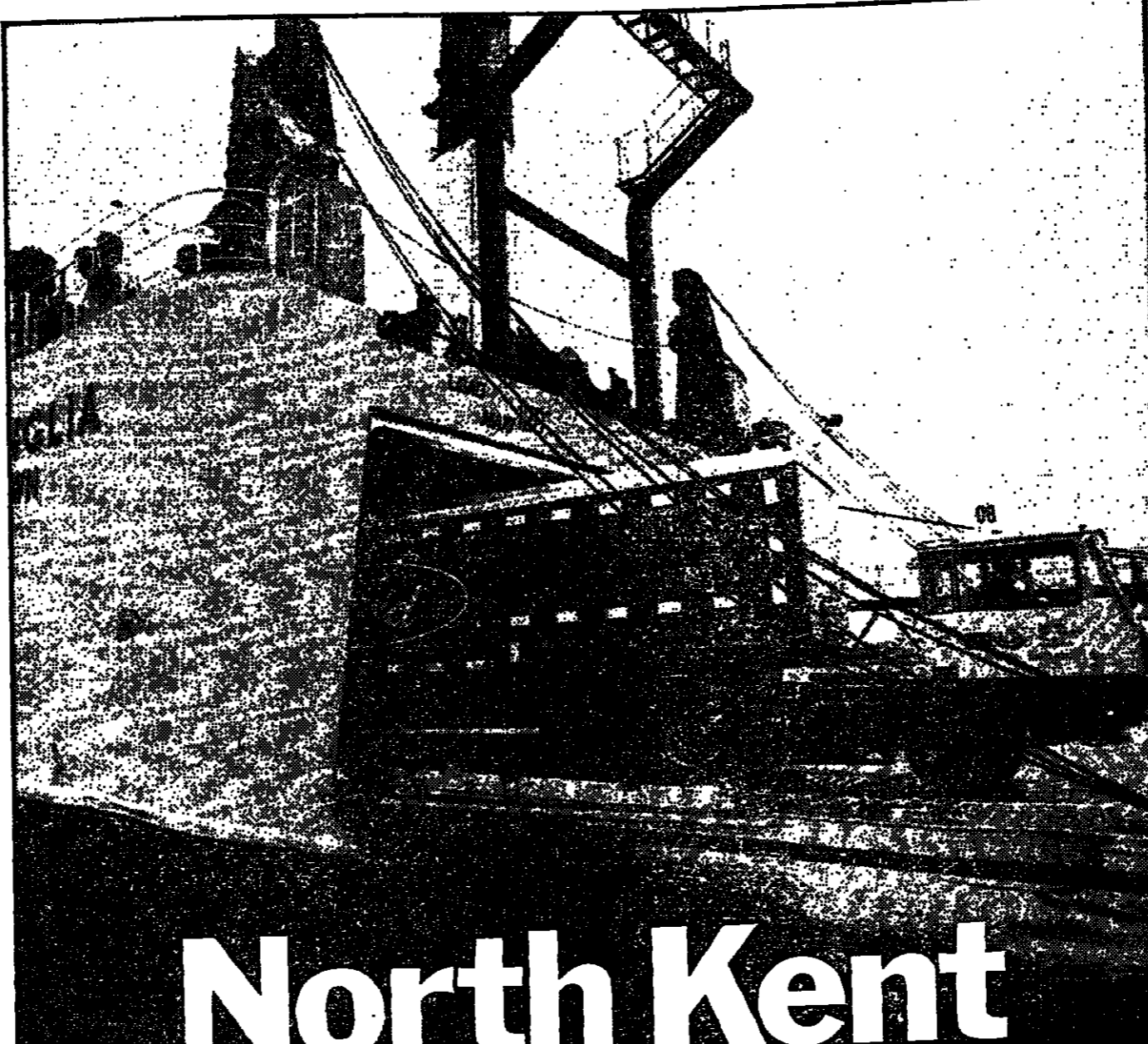
But just as the M4 provided the impetus of development west of London, London's orbital route has provided the spur to the east, easing the transfer of freight, improving access to markets and to London, and bringing Gatwick and Heathrow within one hour's drive.

Thanks to this last improvement, American companies, which haven't so far considered Kent, are now taking a harder look, encouraged by its still competitive property prices.

bined to stimulate interest in the region, not least North Kent's six enterprise zones, the lead taken by its five councils, and the Kent Economic Development Board in employment promotion, and more recently the prospect of a Channel Tunnel.

The omens were not always so promising. In 1980, the manufacturing branches of 10 major companies were operating from factories into which they had moved 20 to 30 years before, making them increasingly uneconomic and uncompetitive. They included BP's oil refinery, Metal Box, and Reeds paper mills. "They all reached the end of the line at about the same time and closed down," says David Homewood, economic development consultant for the area. "Ten companies out of a total of 2,000 may not seem a lot, but they were the big employers and between them some 6,000 people lost their jobs overnight."

Unemployment rose to more than 14.5 per cent and showed no sign of stopping, with a knock-on effect on smaller companies. At the same time, the Government announced the closure of Chatham Dockyard by 1984, adding several thousand to the number unemployed. A rise to 25 per cent in the Medway towns was predicted.



Dartford's £20m International Ferry Terminal opened last October: a boost for the area's economy

In the event, it peaked at 18.7 per cent in January 1985, is now 13 per cent and is expected to fall to 11 per cent and possibly further. Unemployment in Dartford, which rose to 12 per cent with the decline of traditional industries such as cement and papermaking, fell by 5 per cent in five years. In Swale, the average is 13 per cent, approaching 20 per cent on the island of Sheppey, but it too is managing to counteract the closure of the naval dockyard at Sheerness back in the 1980s.

In the regeneration of its economy, North Kent is not starting completely from scratch. Those companies that did survive the recession have provided a solid industrial base upon which to build. Pharmaceutical company, Wellcome, for example, one of Dartford's longest established employers, with a staff of 2,700 is continuing to expand.

One of the area's largest employers is GEC Avionics. In the past 10 years it has increased its workforce by 1,700 and now employs 6,000. It has also doubled its factory floor space since 1977 to 1,000 sq ft. Each year, it places orders worth over £1m with local companies for a range of materials and services. Other long established firms operating in North Kent include Lucas CAV and Bowaters UK Paper.

In Dartford, market forces and, in particular, its close proximity to London, have generally been sufficient to bring about new development.

In the Medway towns, on the other hand, a certain amount of enterprise has been required, partly in the form of the capital allowance and rate-free periods available in enterprise zones, of which there are now six.

Their effect on the movement of investment within North Kent in general may have raised some questions. Parts of Swale might on the face of it have justified a zone or two. Yet the enterprise zones to the west have if anything diverted investment away from the borough, which has instead put together its own incentives to compete, including rent and rates packages. It has also concentrated on providing smaller units, a niche in the market, until recently not fully met by the zones, and stressed the greater availability in the borough than elsewhere of freehold land at reasonable prices.

Within the Medway towns, the granting of EZ status has benefited both the zones and industrial estates beyond. In the first year after enterprise zone status was given to five sites, 90 of the 120 companies coming to North Kent went onto non-EZ estates. Now, only 4 per cent of

industrial premises without EZ status are vacant. Over 150 companies employing some 3,400 have set up within the five zones established in 1985—Chatham Maritime, on part of what was the naval dockyard was declared in 1986. Of those 1,000 represent net job gains to North Kent.

One of the most significant has been Japanese packaging manufacturers, Fuji Seal, which is starting production on its Gillingham Business Park site within the next month or so. It is the first Japanese company to set up in Kent, and, in the nature of things, more could follow. Kent Economic Development Board reports that inquiries from Japanese companies have "shot up" since Fuji Seal chose North Kent.

There are also some European firms looking at the possibilities of establishing a base in North Kent. Heras, a Dutch com-

NORTH KENT: BASIC FACTS	
Population: 520,000	Local Authorities: Gillingham 0634 50021
Gravesend 0474 337405	Rochester upon Medway 0634 436666
Swale 0795 24341	Dartford 0322 27266
Kent County Council 0622 671411	
Higher Education:	Mid Kent College, Chatham 0634 44470
University of Kent, Canterbury 0227 66822	
National Research Establishments:	Tropical Development and Research Institute (opening February 1989)
Development Status:	Non-assisted but with six enterprise zone sites in Gravesend, Rochester and Gillingham
Nearest International Airports:	Gatwick—40 miles
Heathrow—55 miles	

pany making security fencing, recently set up a basic assembly operation in Sittingbourne, and, if it achieves a significant penetration of the UK market within three years, will commence manufacture on land it bought excess to its immediate requirements.

The hope is that those companies with a distribution base established will be persuaded to bring their manufacturing operation to North Kent also. Tiffany Foods is the first example.

Mr Homewood is now handling business enquiries for Gravesend, Rochester and Gillingham at a rate of 20 a week, compared with 60 a year when the three councils decided to adopt a joint promotional strategy six years ago. He expects 150 of the 1,000 enquiries a year to convert into decisions to invest in the Medway towns. It could be higher if land remaining within the enterprise zone is developed.

One of the areas of greatest future potential is the former Chatham dockyard, only recently cleared by English Estates at a cost of £10m. It has already attracted £25m in private sector investment, and expects investment to total £300m by the end of the 10-year development period creating jobs and housing for 5,000 people.

There will be scope for major office relocations within the 350 acres being marketed by English Estates. Indeed, Ian Parker, its project director, believes that the presence of Lloyd's of London headquarters close by will start other large organisations thinking about Chatham's advantages. Lloyd's employs 1,100 in its 200,000 sq ft building.

"We hope that groups from the financial sector will be attracted to move into the area," says Alan Pollard, senior resident manager at Chatham. "We cannot expect to attract certain types of staff to an area where

## Chatham

## Fresh future for the dockyard

THE CLOSURE of Chatham Dockyard founded by Henry VIII, provided a chance in 450 years to secure a future for the Medway towns. At its peak, 16,000 were employed within the one square mile complex, with its unique collection of historic buildings, three water basins and 1½ miles of waterfront.

By the time the 1981 Defence Review confirmed the closure, unemployment in the Medway towns had reached 14.5 per cent. With the government decision came predictions that it could rise to 25 per cent. Optimism, now returned, however, a trust has been set up to develop the area's tourism and leisure potential. English Estates is dealing with a gathering momentum of inquiries to develop industrial, commercial and housing schemes and Medway Ports Authority is bringing life back to the port.

Rochester and Gillingham Borough Councils and Kent County Council, in an initial assessment of the dockyard, came to several key conclusions:

- the oldest part, comprising 80 acres and 60 important ancient monuments had to be protected and its tourism opportunities realised;
- the majority of the 2m sq ft of premises in the central area were useless, had no historic value and could not be converted for modern industrial use. At the same time, the 350 acres that could be readily redeveloped was too large for any single developer to handle. So there was a danger that piecemeal development might result, a possibility the councils were not prepared to contemplate;
- three waterbasins, each of 25 acres, were in good condition and could provide a unique focus for future developments;
- the roads network leading to the dockyard was poor. It had handled mainly cars, with most freight being brought in by ship, so if the dockyard was to generate industry and lorries, Chatham's road network would need improving.

The three councils agreed that the historic area should be handed over to a trust to create a "living museum." The government injected £1.1m into the Historic Dockyard Trust, but it was soon discovered that just to put buildings back into good order was going to cost £25m.

Since 1984, the trust has spent over £5m while, with sound investment advice, the capital endowment has retained its value, now standing at £12m. "Our next step is to seek to raise the necessary funding, whether from grant aid or par-

ticipation from the private sector," says Bruce Robertson, general manager of the trust.

This is the largest concentration of scheduled ancient monuments in the UK and the most complete Georgian dockyard in the world. We are presented with the major challenge of keeping the character of the buildings but at the same time ensuring they are not mothballed, by putting new and appropriate uses into their rightful place. Wherever possible, we're encouraging commercial activities of interest to visitors, particularly in the craft sector.

There are already close to 40 businesses operating in the historic dockyard, with a total workforce of 250. Chatham Flag and Colour Loft, for example, is making flags on the site where flags for Nelson's Victory would have been made. A former guard house is being taken by a firm that specialises in computer programming for maritime applications. An old ropery has been restored at a cost of £3m, and visitors can now watch ropemakers making ropes using old ropemaking machinery.

The docks have been attracting over 50,000 visitors a year, and the total this year is expected to show a 50 per cent increase. "We see a steady growth year by year as we bring on new attractions, something for a return visit," says Bruce Robertson.

The target for 1990 is one quarter of a million visitors. Then the trust plans to hold a major exhibition of wooden shipbuilding in the Mast House and Mould Loft, expected to cost £3m to renovate. In 1986, with an exhibition telling the story of the construction of iron clad ships, the visitor total is expected to reach 75m.

But Bruce Robertson sees the trust having a broader aim, of creating "a living community, providing a pleasant infrastructure for the growing business and residential community in Chatham." Nine acres of the dockyard has been designated for housing, and the trust is now in negotiation with developers for the refurbishment of a Georgian terrace, formerly officers' housing, to create houses likely to fetch £4m, with the trust retaining the freehold.

director, enthusiastically points out the unique possibilities presented around the large basins and long river frontage, now that the 2m sq ft of redundant buildings have been flattened, and a new spine road and public utility services are nearing completion.

"We have four aims: to secure comprehensive redevelopment, stimulate economic activity, create diverse employment opportunities, and maximise the private sector's participation. We expect a massive investment leverage, from a £10m government injection, of a total of £300m private sector funds over the whole scheme. At the same time, 60 acres of the 350-acre site benefits from having enterprise zone status until 1998, beyond any other.

"We are seeking to complement what is on offer in the other enterprise zones in the area. The hope is that Chatham Maritime will develop into a mixed community, with 5,000 people living and 5,000 working there.

The first 400 jobs were secured when two departments

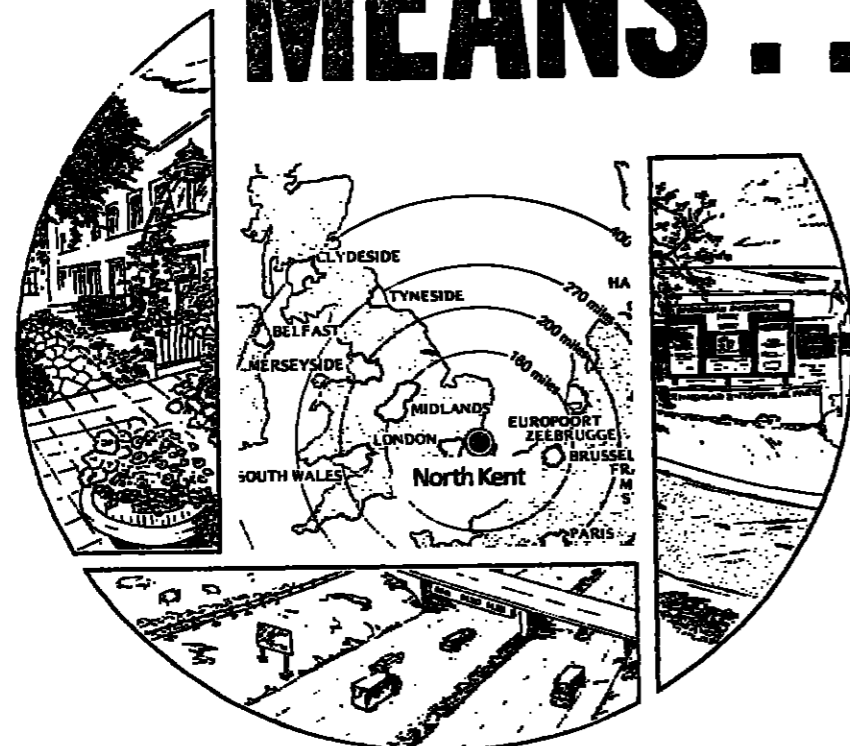
of the Overseas Development Administration agreed to take a lease of some 300,000 sq ft of the former Pembroke Naval Barracks. Mr Parker says he is now receiving inquiries from large companies wanting to relocate, and high tech companies being forced out of the corridor west of London by the high house prices.

The first commitment from a developer to build on cleared land came at the end of April, with the decision by Wilson (UK) Developments to construct 60,000 sq ft of traditionally-built speculative offices in two blocks, modelled on the style of the Pembroke barracks. The company won the scheme in competition with 14 other developers. With two further office projects announced at the same time, the private sector has already committed £25m.

Units range in size from 50 start-up premises in an enterprize village planned by the local Enterprise Agency and costing £1.5m, financed possibly partly by an urban development grant and partly by private

Continued on Page 2

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## MANAGEMENT

WHILE MANY in Sweden's business fraternity are still reeling from the after-effects of the Fermenta scandal, there are a few who feel they were extremely lucky to extricate themselves from the scandal-riddled antibiotics and chemicals company in good time.

One such name is Erik Danielsson, the managing director of Pharmacia, Sweden's leading pharmaceuticals and biotechnology company.

For while other business names rushed in and out of the Fermenta boardroom line-up with almost as much door-banging as in a Feydeau farce and subsequently faced insider trading investigations as well as the possibility of being used by private investors, Danielsson managed to extricate Pharmacia from Fermenta's clutches at a fairly early stage in the latter's downfall.

The story starts over a year ago when Volvo announced ambitious plans designed to shake up and restructure the Swedish biotechnology and pharmaceuticals sector. Volvo wanted companies like Pharmacia, Sonesson (and its two subsidiaries, Leo and Gambro), under one roof, controlled by Fermenta and ultimately Volvo itself.

The grand design went horribly wrong when it transpired that the mercurial Refaat El-Sayed, the driving force behind Fermenta, had lied about his academic credentials. As confidence in Fermenta evaporated, the deal with Volvo fell apart. It has been a downhill slide for Fermenta ever since.

The same could not be said for Pharmacia, which has gone on to achieve much of its original goal in building up a powerful biotechnology empire. Pharmacia came out of the plan with virtually no mud sticking even though outsiders suggested that Pharmacia had engineered the collapse in negotiations because it felt miffed at having to take a backseat role in Volvo's scheme.

Danielsson denies that charge and says simply that Fermenta and Pharmacia showed "no synergy." He admits that Pharmacia asked El-Sayed for proof of his doctorate ("because our research scientists thought it might be of interest to them"), but will not discuss how the information leaked out, except to say that Uppsala (Pharmacia's home town) is a small gossip university town where secrets are hard to keep.

Though the Fermenta scandal shook confidence in the Swedish stock market, it does not appear to have damaged the reputation of the whole biotechnology/drugs sector or its two most powerful and international companies, Pharmacia and Astra.



The Fermenta scandal does not appear to have damaged the reputation of the whole sector

## Pharmacia: building up a powerful empire

Sara Webb on the Swedish pharmaceuticals and biotechnology group

Ironically, Pharmacia has since set about doing the things which Volvo wanted from a major biotech and drugs force, since Danielsson recognised at an early stage what Pharmacia needed to do: strengthen its research in genetic engineering; make strategic acquisitions in order to stay at the forefront of the biotechnology field; strengthen the ophthalmics division by acquiring a lens manufacturer; and expand in the Japanese and US markets.

His concern was that, without a concerted effort to expand, Pharmacia could be left trailing in the rapidly developing biotechnology field. He believes that by the end of the century the market for genetically engineered pharmaceuticals and diagnostic products will have grown by as much as one hundred times. It was therefore imperative for Pharmacia to strengthen its position through acquisitions.

However, Sweden's small size—in terms of suitable takeover targets and research expertise—meant that Danielsson had to shop around overseas.

With these goals in mind, Pharmacia has over the past year acquired:

● Leo, a rival Swedish pharmaceuticals group, for SKr 3.3bn;

● Intermedics Intracocular, a Californian optical lens company, for US\$68m;

● A 20 per cent stake in Electro-Nucleonics, the US biomedical company, and agreed to distribution rights for certain products;

● LKB, the Swedish instruments and chemicals company, for SKr 1.3bn.

It has also set up a genetic engineering research centre in California and a new company in Sweden for research into biosensors, which are used to detect and measure biological substances such as proteins in blood serum.

The strategy has taken its toll on the balance sheet. Pharmacia wrote off intangible assets of SKr 52m related to its recent acquisitions. Profits (after financial items) rose to SKr 821m on sales of SKr 3.65bn, and the group made what analysts regarded as a rather conservative forecast of profits of SKr 1bn on sales of SKr 6bn for 1987.

Today, Pharmacia consists of four business divisions—biotechnology, ophthalmology, diagnostics and health care. Danielsson's strategy has been, as he puts it, to "fill in the missing parts of the jigsaw puzzle."

Leo, LKB and Intermedics Intracocular together were calculated to help Danielsson—dubbed the King of biotechnology—achieve his ambition to dominate certain niches in the US, European and Japanese markets in the next 10 years.

Thanks to the acquisition of LKB and a marketing agreement with Electro Nucleonics (ENI), his earlier plan to sell off the less successful diagnostics division has been laid to rest—at least temporarily.

Perhaps the most important move was the acquisition of Intermedics Intracocular, a Californian optical lens company. This will enable Pharmacia to sell lens "packages" for eye cataract operations. Pharmacia's most successful product is Healon, a gel used to maintain eye pressure in cataract surgery. This represents only \$60 in a typical \$2,000 operation in the US, whereas with Intermedics it will also be able to supply lenses, which account for around \$200 to \$300 of the operation. In the US, the total number of cataract operations performed has increased dramatically from 70,000 in 1981 to 1.2m in 1986.

Intermedics also already has annual sales of \$7.5m in Japan, where Pharmacia is planning

the first launch of its Healon and intraocular lens "packages."

LKB will strengthen Pharmacia's biotechnology and diagnostics activities, particularly the manufacture of equipment for the separation and analysis of biochemicals.

"Both companies were approaching the same goal, but from different directions," says Brian Knox, who specialises in Scandinavian companies at Kleinwort Grieseson.

LKB, which previously had been seen as a competitor to Pharmacia, will continue to market its product range separately.

Pharmacia leads in diagnostics in Europe and Japan, but has no real presence in the US. LKB and Electro-Nucleonics (ENI)—a company which last autumn gave Pharmacia a 20 per cent stake in exchange for distribution rights to Pharmacia allergy and diagnostic lines—can help here. ENI has a strong marketing presence in the US.

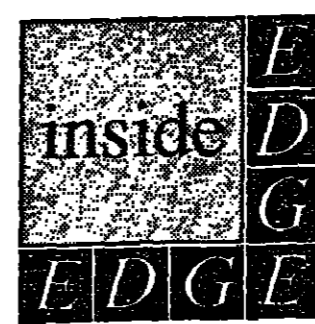
Elof Johansson, head of Pharmacia's research and development, believes allergy testing will prove an important growth area in future. Meanwhile, the attraction of the Leo purchase was that it gave Pharmacia a strong line in anti-cancer drugs, central nervous system drugs, and Nicorette, a prescription chewing gum which is meant to help smokers kick the habit.

The health care market should provide "significant growth" in the future, according to Bertil Gustavsson, the finance director. He sees drugs pumps for patients as a promising area.

In a further development Pharmacia has set up a venture capital company, raising SKr 225m from Swedish companies, specifically to speed up its research into biosensors. Pharmacia had been worried that this project would languish on a back burner, but it now expects to launch its first biosensor products by the early 1990s.

Though Pharmacia has attracted plaudits for much of its strategy there are some observers who are less than full of praise about its Leo acquisition. Leo was part of Sonesson, and after Volvo bought up the rest of Sonesson's pieces, many feel that Leo—basically a traditional drug company—was "palmed off" on Pharmacia and that Pharmacia merely bowed to pressure from Volvo.

Pharmacia vigorously denies the charge and describes Volvo as a "sleeping partner" rather than an aggressive bully. And while Nicorette is considered an unusual product by Pharmacia's standards, Danielsson insists that it is a "tremendous cash cow. We could sell it for what we paid for Leo."



## The day the mail failed to arrive

Sydney Jackson learned some fundamental lessons when he retired—and switched career. Michael Skapinker reports

IT WAS an apparently trivial incident which persuaded Sydney Jackson that he needed to think more seriously about his retirement: his secretary was late with the morning mail. During his 35 years at Esso Petroleum, he had always enjoyed receiving letters. Sometimes people had written to congratulate him on a job he had done. Other letters raised a problem that needed solving. He liked the subsequent challenge. On the day that his mail was late he realised how much he would miss all that.

His original retirement plan had been to devote more effort to his church and DIY activities, waiting to see if any part-time offers of work came along. After the incident with the mail, he decided he needed something more demanding. Last month he took on a new role in a world far removed from oil refining, tankers and pipelines: the chairmanship of the East Dorset Health Authority.

Jackson joined Esso straight out of university. During his time with the company he managed a refinery, ran tanker fleets and the Esso pipeline system, and spent two years in New York advising the board of Exxon, Esso's US parent, on marine matters.

Esso managers can stay until the age of 65, but Jackson decided to go at 60. He wanted to spend more time with his wife. He also thought it would be better for his health. "If you look around, you'll see that people live longer if they retire that bit earlier," he says.

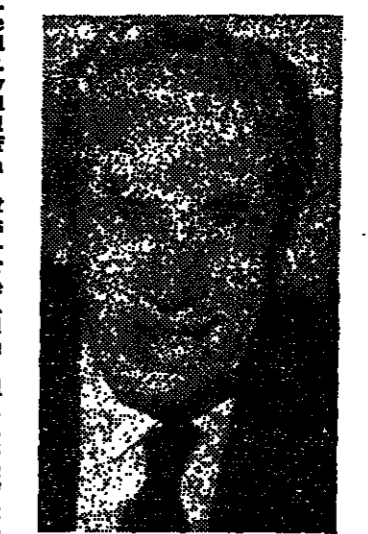
Esso's management development co-ordinator had already suggested that Jackson see an outplacement consultant—an agency which helps to find new jobs for redundant and retired managers. Despite some initial reluctance, he eventually came round to the idea.

"I realised that if I wanted to do something proper in my retirement I had to go about it seriously. It's almost like getting your case heard in court. You get a barrister. You don't try to do it your self like an amateur."

After he stopped working at Esso last October, he had an initial interview with outplacement consultants Sanders and Sidney. Jackson was given a

long list of questions to answer about himself. "For two weeks I scribbled on pieces of paper. When I actually came to write it up, I started at 8.30 on a Sunday morning and, apart from lunch, I carried on until 6. You are analysing the whole of your 35 year career—and more. It's very important to pull out what your strengths are."

Together with a Sanders and Sidney consultant, he then analysed those strengths. What were they? There is a long yause. "He'll tell me off for this. I should have it on the tip of my tongue." Finally he



Sydney Jackson: from oil to health

remembers. "A well-rounded manager with a track record of getting things done."

He and the consultant did have one big disagreement. It was about the word "tough." "He insisted that my career details showed I was tough. I was tough. So he suggested that two managers who had worked for me in the last three years write down on a piece of paper what they thought my management style was. They both included the word 'tough.'"

Though he might have been, but life away from Esso was not easy. After years of being a manager, Jackson found him-

self dependent on the goodwill of others. "You go through a very depressing time," he says. It was those letters again.

"People don't respond to your letters. Well they do, but it takes a long time. When you're in business, you're churning out letters and pushing things along. If a letter takes two or three weeks to get a reply, you don't notice it because of all the other stuff. Here I was really getting peeved. Why don't people write back to me? You feel irrelevant. Somebody said there's nothing more redundant than an ex-politician. Well there's nobody more irrelevant than an ex-manager."

Finally in January, something came up: a non-executive directorship with a small company which arranges boat shows. The three-day a week chairmanship of the health authority came through Esso, which had been asked to suggest names of managers to work in the public sector. Doing both jobs still leaves him time for his other interests.

Jackson spent two months talking to health service employees before taking up the reins. He has not detected any resentment at the man from the oil industry. "So far I haven't had any adverse comments. We're still in the honeymoon period."

All the same, he knows that some health service professionals doubt that industry management skills are transferable to hospitals. But then he's heard all that before.

"When I went from refining to marine, everyone said that the problems were different. I found that the symptoms were different, but the problems were the same. It's about people and getting them to do things. If you have a bunch of metallurgists or computer specialists, they have the same professional pride that surgeons and physicians have and they don't understand the need for management. But once you get a number of people working for you you're into management. I can't perform an operation. But I can motivate people," he says.

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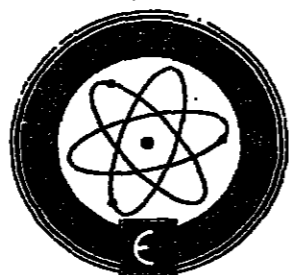
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## FRENCH FINANCE

## French investment banker makes discreet comeback

BY PAUL BETTS IN PARIS

MR GEORGES PEBEREAU, the former head of CGE, the French telecommunications and heavy engineering group, is making a discreet but well noted comeback on the French and international financial scene.

During the last few months he has set up an investment bank, Marceau Investissements, and a separate financial engineering company raising more than FF1.1bn of capital. By the end of this year, with leading French, European, and other international partners, he expects to have raised about FF1.5bn in funds.

"My time in the wilderness was shorter than I expected," says Mr Pebereau, who was replaced at the head of the now privatised CGE a year ago by the Government after clinching the landmark telecommunications merger between CGE's Alcatel subsidiary and IIT.

At the time, Mr Pebereau took his surprise replacement sportingly, announcing that he would temporarily step out of the limelight to meditate and look at the sea.

"In fact I went down to the Cote d'Azur, where I met Mr Gustave Leven, the chairman of Perrier, and Mr Jean-Louis Descours, the chairman of the Andre shoe group. And with them I discussed the opportunity of starting up an international investment banking business," says Mr Pebereau.

True to his reputation as a virtuoso of French finance and industry, he set about his task with zeal. By April this year he had raised FF1.6bn for Marceau Investissements. His partners included Mr Leven and Mr Descours, who personally contributed FF1.6bn each.

Other investors included the Caisse de Depots, the big state financial institution, Axa, the insurance group, and a financial subsidiary of the Total oil group. Each invested FF1.2bn



Georges Pebereau—set about forming an international investment banking business with zeal.

in the enterprise. A subsidiary of L'Oréal, the cosmetics and beauty products group, Mr Pierre Moussa's Pallas investment group, and a subsidiary of the Paluel Marmont financial group all put FF1.2bn into the venture.

Mr Pebereau has further extended his range of investors with the Suez financial group and BAT's Eagle Star insurance subsidiary putting up FF1.2bn each. Between them the West German Westfalen bank, Julius Baer of Zurich and Mr Edmund Safra have invested FF1.8bn.

Mr Pebereau is seeking to further extend the capital base of his new venture, possibly taking in a US partner, a Japanese investor and a group from the Middle East. "We have already raised FF1.02bn and I expect we will have raised about FF1.5bn by the end of the year," he says.

Among the first major investments made by Mr Pebereau's

new financial group is the acquisition of a 0.5 per cent stake in Societe Generale, the French commercial bank currently being privatised. Marceau Investissements has thus become one of the so-called core shareholders in France's third largest commercial bank. The stake will have cost about FF1.2bn.

The new group has also invested in a small stake in the Laurent Perrier champagne house and taken a stake in a medium-sized company called Franciaflex, which specialises in manufacturing blinds and which is eventually to be listed on the French second market.

At the same time, Mr Pebereau has been actively engaged in a number of mergers and acquisitions, showing an undoubted gusto at being involved once again in international dealmaking.

He played a part in the recent acquisition by Perrier, the French mineral water group, of BCI Arrowhead, the mineral water division of Beatrice Food. He also helped engineer two recent UK acquisitions in France, including the FF1.375m purchase by Avon Rubber of an industrial rubber subsidiary of the Bic group and the FF1.45m purchase by Prestige, a British subsidiary of American Brands, of Le Creuset, the leading French manufacturer of cast-iron and sauteuses.

Recently there has been regular speculation that Mr Pebereau would land a major new job in the state sector — his name has been mentioned in the past in connection with the presidency of the French electricity board and the state railways among other groups — but the former CGE chairman has made it clear that he is devoting all his energies to his new financial venture.

"We've had a good start and we've got a few more deals already up our sleeves," he says.

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## FINANCIAL TIMES SURVEYS

EDITORIAL SYNOPSIS

## OFFICE EQUIPMENT

Publication Date: Thursday 3rd September 1987

Insertion Guarantee: Friday 31st July 1987

Copy Date: Friday 21st August 1987

EDITORIAL SYNOPSIS

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1. INTRODUCTION For office managers, the task of equipment selection is becoming evermore complex with the change in office practices, the need for training and back-up services and the demand for integrating operations as the technology of business communications and computers converge.

2. OTHER ARTICLES Other articles in this survey will examine developments in key equipment sectors including:

- (a) Photocopiers.
- (b) Electronic typewriters.
- (c) Word processing equipment.
- (d) Communications and telephone equipment.
- (e) Electronic mail and new ways of sending text.
- (f) Facsimile developments.
- (g) Dictation equipment: answering machines.
- (h) Mailing systems: addressing, weighing and franking machines.

3. THE WORK PLACE (a) New ways to co-ordinate the office with computer-related furniture systems; a look at developments in deskings; seating; linking the systems; the quest for flexibility in the office environment; cable management options and servicing solutions.

(b) Patterns in purchasing new equipment: the cost factors—buy, lease or rent? The role of outside consultancies for office planning and for services such as printing, computing and mailing.

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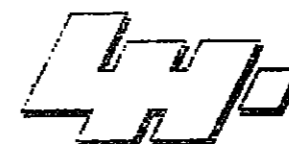


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## LATIN AMERICAN INDUSTRY

# Latin America treads a tangled path towards privatisation

BY ROBERT GRAHAM, LATIN AMERICAN EDITOR

WITH LITTLE fanfare, privatisation has crept into the economic and political vocabulary of Latin America. All the larger countries at least pay lip service to the idea. But the approaches to the concept and its implementation differ enormously.

The state, in various guises, plays a dominant role in many Latin American economies, reflecting a dirigiste view of economic policy and development. The private sector itself tends to regard the state as a handmaiden of initiative and enterprise.

The essential difference from, say, Thatcherite Britain, is that Latin American privatisation is taking place in the context of what is still, at best, a limited free market economy. Privatisation has been taken on board largely as a consequence of the debt crisis, which since 1983 has obliged governments to be far more conscious of cost cuts and efficiency.

The most notable exception has been the military government of Gen Augusto Pinochet in Chile, which has openly embraced the free market views of the Chicago School. The Pinochet Government wants to reduce the state sector's role to the minimum and regards the private sector as the principal motor of future growth.

### Broad motives

To date in Latin America one can identify six broad motives behind privatisation:

- Lessen the role of the state
- Improve management
- Return to the private sector companies the state was forced to acquire, or which were nationalised by previous governments
- Widen the base of share ownership
- Raise extra resources for the treasury
- Generate domestic and international business confidence

The three most illustrative countries which have embarked upon a programme of privatisation are Argentina, Chile and Mexico. Of these, only Chile could be said to be privatising for a combination of all the above motives.

In the case of Mexico, the de la Madrid Government has been primarily concerned to restore business confidence and remedy the negative consequences of the hasty 1982

bank nationalisations carried out by the previous Lopez Portillo administration.

The Alfonsín Government in Argentina, on the other hand, has initiated privatisation to prune the large corporatist edifice created by the populist policies of Gen Juan Peron in the early 1960s, which the ensuing military governments padded out further.

In Chile, Gen Pinochet has been concerned to alter the large-scale nationalisations that occurred just before and during the Allende government in the early 1970s. Although the privatisation programme was begun in 1974, it suffered a serious setback as a result of the economic collapse of the early 1980s, when the Government was forced to step into the country's three main holding companies and several of its banks.

The programme has regained momentum only during the last two years. Yet it remains inspired by the same ideological considerations—a desire to move Chile irrevocably away from the socialist philosophy of the Allende era and to break the power of organised labour.

### Assets selected

The assets selected for privatisation in these three countries show no overall pattern; rather, they tend to reflect the political reality of what it is possible to hive off in economies with strong vested interests in both the state and private sectors.

Thus in Mexico, President de la Madrid acted slowly in privatising the banks because he could not be seen to be overturning quickly his predecessor's decision. He began in 1984 by selling off the banks' holdings in 330 companies (including financial service companies). He started the process of selling off minority stakes in the banks themselves only this year.

The Mexican Government recently pledged to reduce its holdings to 300 strategic companies by 1988—a quarter of the number inherited at the outset of President de la Madrid's six-year term.

Apart from banks in 19 of which one-third of the government stake has already been sold off—the list for privatisation ranges from soft drinks to tourism (Nacional Hotelera, the leading hotel chain) and parts

of the transport sector including Mexicana, the national airline. However, oil, controlled by Pemex, is specifically excluded.

The Argentine government has earmarked Anstral, the domestic airline, for privatisation and is pressing ahead with plans to sell off peripheral parts of the huge railways organisation. It also believes in cutting some of the service activities of YPF, the state oil company, as well as selling the petrochemicals side of its business. However, the core elements of oil, transport and the utilities are all likely to remain in state hands.

### Gradual sales

Chile has opted for a far broader divestiture. The Government is in the process of gradual sales of shares in utilities (Endesa, electricity generation, and Chilectra, electricity distribution), telecommunications (Telefonos de Chile, and CPTC), as well as steel (CAP) and industrial activities like nitrates (Soquimich)—as well as banks.

Significantly, Codelco, the copper mining concern, appears likely to remain in state hands, though with the field left open for domestic and international companies to develop their own mines.

Unlike privatisation in Britain, for example, Latin American governments do not regard the raising of funds for the treasury as a high priority. Many of the companies and financial institutions being sold have been restructured, with the state often still bearing some of the debt.

Only Chile stresses the point that privatisation is a useful source of extra revenue. By the end of this year the Pinochet government hopes to have raised over \$500m from the sale of shares in 25 companies over a two-year period.

Initially, the preferred mechanism for privatisation was to invite interested groups of private investors and to offer them all or part of the shares on the basis of tender or a negotiated price. In Chile, 311 of the 350 companies then privatised were transferred back to their original owners in 1974.

In Mexico in 1984, former shareholders in the banks that had been nationalised two years

previously were able to purchase shares in the 339 companies offered, with indemnity bonds issued in compensation for the takeover.

First Chile and now Mexico have moved on to a more sophisticated stage. Shares in companies being privatised are being floated on the stock exchange, opening up the possibility of wider ownership and of a more market-oriented approach to valuation.

This has not been easy for the respective governments. They need to make the shares attractive yet want to avoid the charge of selling off national assets too cheaply. In Mexico, the country's three leading banks—Bancomer, Banamex and Serfin—this year launched new stock equivalent to 34 per cent of their paid-in capital. The share quickly doubled, and in one instance trebled, their launch price, leading to a political outcry.

The dilemma is a serious one for the governments. The share price needs to be attractive to encourage investors. The Argentine Government is currently having to delay the Austral airlines privatisation because of disagreements about pricing.

By launching privatisation through the stock exchanges, the governments hope to stimulate the growth of local capital markets. Pension funds have begun to play a bigger role and indeed are relied upon to be significant purchasers. In Chile these institutions are managing an annual \$1.7bn.

### Share ownership

Share ownership has undoubtedly begun to spread, yet the respective claims of governments need to be examined carefully. It is not so much the public at large that is buying shares; rather, employees are being offered company shares on favourable terms or are being encouraged to make retirement arrangements through share purchases. In Mexico, the recent launch of bank shares also produced widespread allegations that pockets of shares had been allocated to government supporters.

Latin American governments have been cautious about letting foreign investors in on the privatisation process—both to encourage local entrepreneurs and to retain ownership in national hands.



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# FINANCIAL TIMES SURVEY



The policy of consensus that President Mubarak has adopted in treading a careful path between competing elements in

society is now being criticised as lacking in assertiveness. He needs to confront some of the sacred cows bedeviling the administration, such as an entrenched bureaucracy, says

Tony Walker

## Breathing space for Mubarak

"WE HAVE been given," said the Egyptian official, "a substantial breathing space." While some may dispute the extent to which pressures on Egypt have been eased after its recent agreement with the International Monetary Fund (IMF) and subsequent rescheduling of part of its foreign debt, there is no doubt that economic circumstances are a little better.

Last year was a calamitous one. Oil revenues collapsed, tourism was down, and so, too, were earnings from the Suez Canal. Egypt, which was having difficulty in any case paying instalments on its foreign debt of about US\$40bn, was close to default.

Its problems were compounded by ineffectual political management, the Government was riven by disagreement, decision making, never a strong point of Egyptian administration, almost came to a halt. The appointment in November of a new Prime Minister coincided with an apparent improvement in the functioning of the Government and a slight lift in Egypt's economic fortunes. Oil prices firmed in the first quarter of 1987, tourism

rebounded and earnings from the Suez Canal were up.

Egypt concluded a crucial agreement with the IMF in May after several years of often difficult negotiations. While the size of the IMF assistance programme was modest, its real value lay in the encouragement it gave to Egypt's creditors to reschedule a portion of its foreign debt.

The flexible IMF programme required Egypt to reduce substantially demand in the economy and to begin tackling some of its outstanding structural problems such as its tangled system of explicit and implicit subsidies which cost the Government about US\$6bn a year. The successful conclusion to the IMF negotiation appears to have injected more sense of purpose into the Administration. Most observers believe that it is proving more responsive to Egypt's many problems, including an unwieldy public sector and an over-dependence on imported foodstuffs.

But as always with Egypt, the question is whether a policy of gradualism is appropriate or whether shock-treatment may not be more in order given the dimension of the many prob-

lems facing the country, not least of these being the population explosion.

President Hosni Mubarak himself is, by nature, a gradualist. Since assuming the presidency on the assassination of the late Anwar Sadat in 1981, he has steered a careful course to confront some of the sacred cows of the Egyptian system such as an entrenched and unresponsive bureaucracy. Critics suggest that the Presidency

the beginning of his second term (there is little doubt he will be re-elected to a second six-year term this year) that he should be more assertive: that a plodding approach is no longer appropriate.

Pressures seem certain to increase on the President to confront some of the sacred cows of the Egyptian system such as an entrenched and unresponsive bureaucracy. Critics suggest that the Presidency

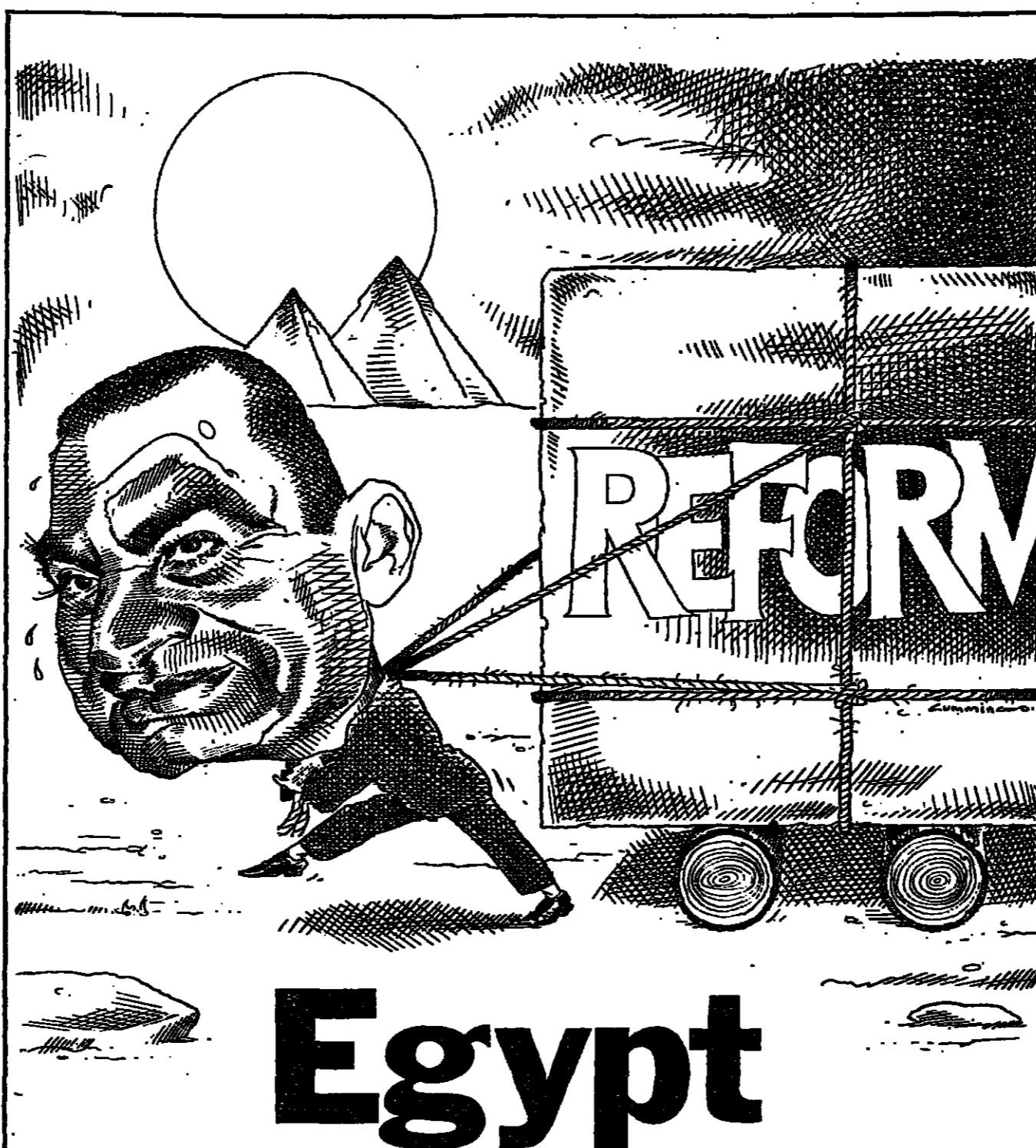
itself is an institutional bureaucracy and that this sets the tone for the rest of the Administration.

People would like Mr Mubarak, a former air force commander with a reputation for caution, to be more innovative, but question whether this is possible given the constraints of background, temperament and the circumstances under which he inherited the Presidency spattered with Mr

Sadat's blood and lying on the floor of a military reviewing stand.

Recent violent incidents in Cairo in which gunmen attempted to assassinate a former interior minister, the head of US security, and a prominent left-wing newspaper editor are worrying the authorities and may well reinforce the tendency towards caution in the Administration.

Muslim fundamentalists are



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believed to be responsible for two of the incidents: the attacks on the former interior minister and on the newspaper editor.

The authorities made hundreds, perhaps thousands, of arrests, in an effort to find the culprits, but this scattergun approach, merely gave the impression that the police had little idea who was responsible. Mass arrests may be part of traditional security practice in Egypt, but such an approach runs the risk of further radicalising a specific group in society.

A continuing debate within ruling circles in Egypt is over the correct response to the challenge of fundamentalism. The Government has opted for a carrot and stick approach. It encourages on the one hand the mainstream Muslim Brotherhood to participate in the system and on the other confronts religious extremists.

The dilemma for the authorities is how to distinguish between the Islamic mainstream and fringe elements. If there is a continuing pattern of violent incidents such as those we have witnessed recently, the Government will find itself under greater pressure to crack down on the Islamic tendency with possible negative consequences for Egypt's democratic experiment.

A noticeable trend in the past two years has been the nagging incidence of violence in Cairo and in the cities and towns of Upper Egypt where the religious right is entrenched. These persistent incidents seem to indicate a wider malaise.

Mr Mubarak has pinned his hopes of containing a restless population, including a large number of unemployed graduates, on encouraging a wider participation in the political process and on a free press.

It is a credit to him that newspapers in Egypt operate under fewer restrictions than those in any other Arab country with the possible exception of Lebanon where special circumstances prevail. Egypt's human rights record, while not blameless, compares favourably with those of surrounding states.

Elections held in April for the People's Assembly resulted in a predictable overwhelming victory for Mr Mubarak's National Democratic Party, but at the same time opposition groups, including the Muslim Brotherhood, strengthened their representation.

This completed government strategy of drawing various political groups into the national debate.

Mr Mubarak's main immediate problems, apart from the continuing dilemma of what to do about fundamentalism, appears to be inflation and unemployment. Both pose a threat to stability. Jobs for young Egyptians are at a premium. Employment creation should be an absolute priority of the Administration.

Price increases of 20 per cent to 25 per cent in the past year are causing unhappiness. Officials claim that the surge in prices has peaked and the rate of increase will start to drop. This remains to be seen. Egyptians, especially the 30 per cent to 40 per cent at or near the poverty line, would be sceptical about such claims.

A new trend in Egyptian foreign policy has become apparent in the first half of this year. Egypt has, since the meeting of the Islamic conference in Kuwait in January, appeared more assertive.

This was seen in recent criticism of Syria over various regional issues such as its support of Iran in the Gulf war, and in the swift decision to close Palestine Liberation Organisation offices in Egypt after a resolution of the PLO's Algerian summit criticising the peace treaty with Israel.

The past year has marked Egypt's further move back towards the Arab mainstream. Nervousness among Gulf states about Iran has encouraged them to draw closer to Egypt, the predominant Arab military power.

This has had economic benefits. Kuwait and Saudi Arabia have provided funds at critical moments in the past 12 months, helping to keep Egypt afloat pending a rescheduling of its foreign debt.

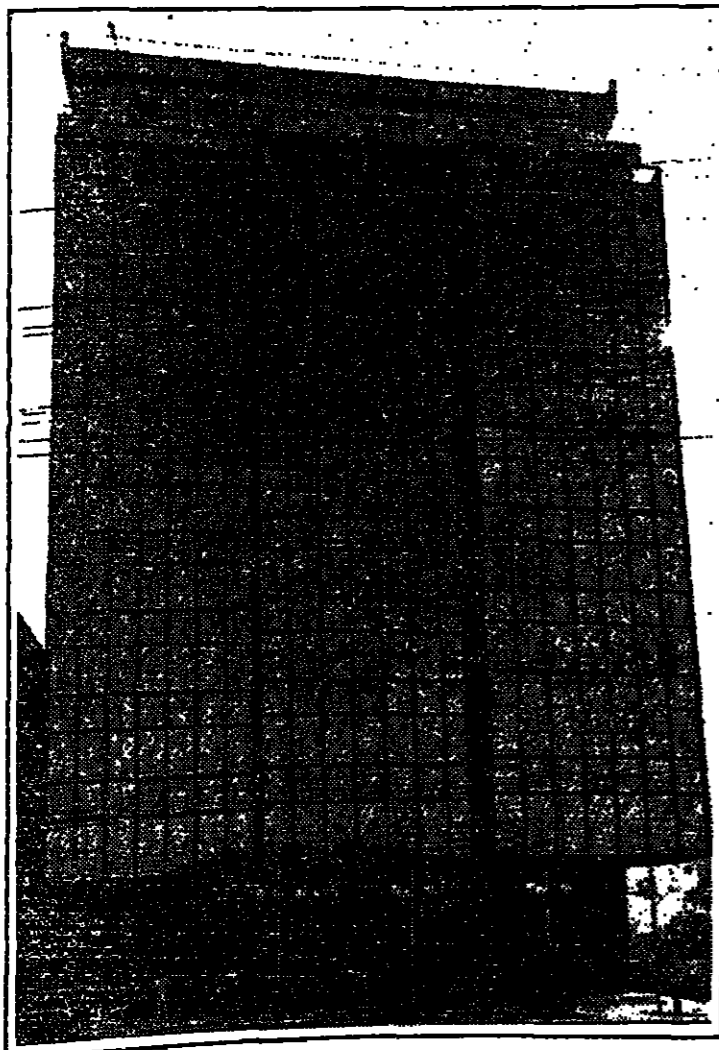
Egypt has been active in the search for a formula that would shift the Middle East peace process from its present stalemate, but has not met with success. Prospects for the next 12 months are for a further period of economic consolidation and little change in the external environment. Egypt has been awarded a breathing space by its friends in the West, but this is no more than a temporary reprieve.

Further reforms of Egypt's economic structure are necessary if it is to capitalise on recent good fortune. The long haul has only just begun.



# الشريف

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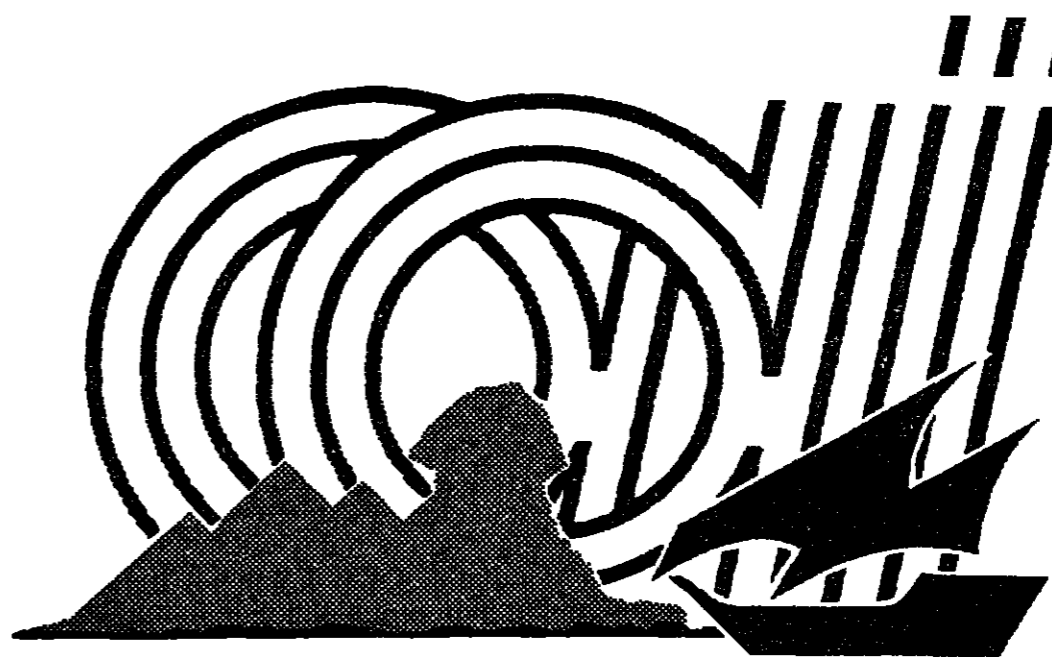
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## BRITISH FUNDS

[illegible]**BRITISH FUNDS—Contd**[illegible]

## FOREIGN BONDS & RAILS

[illegible]

## Money Market Bank Accounts

[illegible]

## Money Market Trust Funds

[illegible]







## WORLD STOCK MARKETS

AUSTRIA	Stock	High	Low	Price	ITALY Continued	Stock	High	Low	Price	NETHERLANDS	Stock	High	Low	Price	FINLAND	Stock	High	Low	Price	FRANCE	Stock	High	Low	Price	GERMANY	Stock	High	Low	Price	NORWAY	Stock	High	Low	Price	ITALY	Stock	High	Low	Price				
2100	1990	Creditanstalt	1918		141200	120000	Generali Assur	134,000		55.5	55.5	IACF Holding	63.80		970	720	Borealis	560.00		970	720	Borealis	560.00		309	142	AGA (Free)	203		309	142	AGA (Free)	203		309	142	AGA (Free)	203		309	142	AGA (Free)	203
2410	2460	Borsen	2550		102000	72000	Intermont	99,500		107.3	92.2	AIGON	95.20		2410	2460	Borsen	2550		2410	2460	Borsen	2550		970	720	Borealis	560.00		970	720	Borealis	560.00		970	720	Borealis	560.00		970	720	Borealis	560.00
14000	10500	Intercontinental	11,850		1340	960	La Rinascente	11,850		107.3	92.2	AIGON	95.20		14000	10500	Intercontinental	11,850		14000	10500	Intercontinental	11,850		970	720	Borealis	560.00		970	720	Borealis	560.00		970	720	Borealis	560.00		970	720	Borealis	560.00
2225	1760	Jungbunzlauer	7720		2968	2350	Montedison	2435		107.3	92.2	AIGON	95.20		2225	1760	Jungbunzlauer	7720		2225	1760	Jungbunzlauer	7720		970	720	Borealis	560.00		970	720	Borealis	560.00		970	720	Borealis	560.00		970	720	Borealis	560.00
712	1780	Lenderbank	1805		14700	11500	Olivetti	13,060		107.3	92.2	AIGON	95.20		712	1780	Lenderbank	1805		712	1780	Lenderbank	1805		970	720	Borealis	560.00		970	720	Borealis	560.00		970	720	Borealis	560.00		970	720	Borealis	560.00
113	690	Perini	744		7840	6300	Pirelli	6,410		107.3	92.2	AIGON	95.20		113	690	Perini	744		113	690	Perini	744		970	720	Borealis	560.00		970	720	Borealis	560.00		970	720	Borealis	560.00		970	720	Borealis	560.00
					4360	3590	Salomoni	3,590		107.3	92.2	AIGON	95.20												970	720	Borealis	560.00		970	720	Borealis	560.00		970	720	Borealis	560.00		970	720	Borealis	560.00
					4895	3890	Sella	3,890		107.3	92.2	AIGON	95.20												970	720	Borealis	560.00		970	720	Borealis	560.00		970	720	Borealis	560.00		970	720	Borealis	560.00
					35500	27720	Toro Assic.	32,740		107.3	92.2	AIGON	95.20												970	720	Borealis	560.00		970	720	Borealis	560.00		970	720	Borealis	560.00		970	720	Borealis	560.00

NEW YORK				DOW JONES				INDICES				CANADA				NEW YORK ACTIVE STOCKS			
Stock	High	Low	Price	Stock	High	Low	Price	Stock	High	Low	Price	Stock	High	Low	Price	Stock	High	Low	Price
2436.95 2431.05	2436.95	2431.05	2431.05	307.20 306.96	307.20	306.96	306.96	2436.95 2431.05	2436.95	2431.05	2431.05	2436.95 2431.05	2436.95	2431.05	2431.05	2436.95 2431.05	2436.95	2431.05	2431.05
2436.95 2431.05	2436.95	2431.05	2431.05	307.20 306.96	307.20	306.96	306.96	2436.95 2431.05	2436.95	2431.05	2431.05	2436.95 2431.05	2436.95	2431.05	2431.05	2436.95 2431.05	2436.95	2431.05	2431.05
2436.95 2431.05	2436.95	2431.05	2431.05	307.20 306.96	307.20	306.96	306.96	2436.95 2431.05	2436.95	2431.05	2431.05	2436.95 2431.05	2436.95	2431.05	2431.05	2436.95 2431.05	2436.95	2431.05	2431.05
2436.95 2431.05	2436.95	2431.05	2431.05	307.20 306.96	307.20	306.96	306.96	2436.95 2431.05	2436.95	2431.05	2431.05	2436.95 2431.05	2436.95	2431.05	2431.05	2436.95 2431.05	2436.95	2431.05	2431.05

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